

Meeting: IAASB Consultative Advisory Group
Meeting Location: New York
Meeting Date: April 8, 2013

Agenda Item

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Assurance Engagements other than Audits or Reviews–ISAE 3000

Objectives of Agenda Item

1. The objective of this Agenda Item is:
 - To obtain the Representatives' views on the significant matters to be discussed by the IAASB at its April 2013 meeting relating to proposed revised ISAE 3000.¹
 - To provide a report back to the Representatives on their comments and questions on ISAE 3000 as discussed at the September 2012 CAG Meeting.

Papers to Be Referred to during Discussion

2. The discussion on this topic will follow the structure of this CAG Paper.

Project Status and Timeline

3. ISAE 3000 was last discussed by the CAG in September 2012. The IAASB issued an Exposure Draft in April 2011, which resulted in the receipt of 57 comment letters prior to the closing of the comment period in September 2011. All comment letters are available at www.ifac.org/publications-resources/isaie-3000-revised-assurance-engagements-other-audits-or-reviews-historical-fi.
4. Appendix 1 to this paper provides a project history, including links to the relevant CAG documentation.

September 2012 CAG Discussion

5. Below are extracts from the draft minutes of the September 2012 CAG meeting,² and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

¹ Proposed International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*

² The minutes will be approved at the September 2012 IAASB CAG meeting.

Representatives' Comments	Task Force/IAASB Response
DIRECTION OF THE PROJECT	
<p>Ms. Blomme asked if the proposed standard mandated that the requirements of ISAE 3000 must be complied with in order to issue a report making reference to it. She also noted that the revised ISRS 4410³ adopted a particular approach for when that standard had to be applied and a report issued.</p>	<p>Mr. Kinney explained that the ISAE mandates that all requirements of ISAE 3000 must be complied with in order to represent compliance with ISAE 3000 in the practitioner's report. Mr. Gunn explained that, because of the nature of an assurance engagement, a report is required. The issue addressed in ISRS 4410 is specific to those engagements given the range of activities that professional accountants may perform that carry features of compilation work but, in and of themselves do not constitute a compilation engagement or require a report in accordance with ISRS 4410.</p>
<p>Mr. Morris noted that the difference between RA and LA is well understood in the US; however, he believed that more guidance was needed to ensure consistent application in the global context, particularly with regard to the differences between evidence-based and procedures-based LA engagements. Ms. Lang agreed with Mr. Morris, noting that the Task Force has responded to the comments received and encouraged the Task Force to simplify the language.</p>	<p>Mr. Kinney responded that the two concepts – “sufficient appropriate evidence” and “performing procedures to address areas where material misstatements have a greater than acceptable level of risk in the engagement circumstances of occurring” – are actually two sides of the same concept. He noted that, while it may be easier to talk only in terms of the risk of material misstatement, the definition of RA is not phrased in terms of risk. Prof. Schilder added that the Task Force has included the concept of evidence in the revised definition of LA.</p>
<p>Ms. Lang thanked the Task Force for “thinking small first” saying that this was an important step forward to enabling SMPs and SMEs and the considerations made by the Task Force in their deliberations to date were appreciated.</p>	<p>Support noted.</p>
CONTINUED INCLUSION OF DIRECT ENGAGEMENTS	
<p>Mr. Pannier supported the continued inclusion of direct engagements.</p>	<p>Support noted.</p>

³ International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*

Representatives' Comments	Task Force/IAASB Response
<p>Ms. de Beer noted that extant ISAE 3000 is used for engagements relating to South African black economic empowerment legislation, and that often in respect of smaller entities what appears to be attestation engagements are actually rather direct engagements.</p>	<p>The Task Force agrees that some engagements that may be seen as attestation engagements may, by the IAASB's definitions, be direct engagements.</p>
<p>Ms. de Beer and Mr. Hansen noted that, in the past, the CAG had found it difficult to reconcile direct engagements with the requirement to be independent. Mr. Hansen also noted that independence was at the heart of an assurance engagement, and that the IESBA had not resolved how a practitioner could be partially independent. Mr. Koktvedgaard asked the Task Force to consider if direct engagements created a self-review threat. In contrast, Mr. Hines suggested that disclosure of the procedures performed and the nature of the engagement was appropriate, as that would enable users to request that the measurement and assurance functions be separated.</p>	<p>The Task Force notes that matters pertaining to the independence of professional accountants are properly the responsibility of the IESBA. Accordingly, IAASB staff has communicated the Representatives comments to the IESBA staff for consideration by the IESBA.</p>
<p>Mr. Stewart noted that the practitioner is independent of the entity, but cannot be independent of the subject matter information as the practitioner prepared it. Ms. Blomme supported the Task Force proposals, noting that proposed ISAE 3000 (Revised) should be clear about the differences between RA, LA, attestation and direct engagements. Mr. Holmqvist noted that the IAASB and IESBA staff should discuss the matter further.</p>	<p>Mr. Kinney responded that direct engagements are permitted in extant ISAE 3000 and the engaging party should understand the nature of the engagement as they have agreed the engagement terms with the practitioner. Prof. Schilder noted that objectivity in such engagements is more challenging for practitioners to maintain, but that this is different from independence.</p>
<p>Mr. Hansen noted that direct engagements are similar, in some ways, to business valuations where the valuer performs the valuation and states that they are independent.</p>	<p>The Task Force agrees with this assessment, and notes that what distinguishes a valuation engagement from a direct engagement is the assurance component. That is, the practitioner, while measuring the subject matter, also performs assurance procedures on data they use to obtain assurance over the subject matter information.</p>
<p>Mr. Koktvedgaard asked if it was possible to issue a report that did not address the question of the</p>	<p>The Task Force notes that assurance reports issued under proposed ISAE 3000 are required to</p>

Representatives' Comments	Task Force/IAASB Response
independence of the practitioner.	identify that the report is that of an independent practitioner.
DEFINITIONS OF LA AND RA	
Mr. Shivaraya suggested that the practitioner should be required to obtain RA when the consequences are so great that only RA would be meaningful. He highlighted that this would prevent practitioners from offering to perform LA engagements when only RA engagements is appropriate. Mr. Johnson noted that, in his view, whether RA or LA is appropriate for a particular engagement should be agreed between the parties rather than restricted by proposed ISAE 3000 (Revised).	Mr. Kinney responded that proposed ISAE 3000 (Revised) clarifies that the level of assurance for LA is at least that which is meaningful to intended users, and in some cases when the consequences of a material misstatement are great, this may be equivalent to RA. Mr. Gunn noted that the IAASB had a similar discussion around engagement acceptance in relation to the appropriateness of ISRE 2400 (Revised) for larger complex entities. He explained that the IAASB concluded that it was not appropriate to restrict the application of the standard; rather the practitioner has a responsibility to consider if the engagement is appropriate in the circumstances.
Mmes. de Beer and Lang noted that application material explaining LA is difficult to read and should be clarified.	The Task Force agrees that the material should be further streamlined and clarified and will continue to review this as the project progresses.
Ms. de Beer also noted that the references to analytical procedures should indicate the differences in the practitioner's objectives in RA and LA engagements when performing analytical procedures.	The Task Force notes that the application material discusses the nature of analytical procedures, how they will often vary in reasonable and limited assurance engagements, and how the practitioner's response to identified fluctuations may differ.
WORK EFFORT OF LA AND RA	
Mr. Koktvedgaard suggested that an additional example be included that focuses on the fact that sample sizes may be smaller for LA due to the lower confidence needed.	The Task Force notes that the application material has an example addressing sample sizes in reasonable and limited assurance engagements.
Mr. Hines noted that he found it difficult to distinguish what was different between the RA and LA requirements regarding risk consideration and obtaining an understanding of internal controls. Ms. de Beer agreed, adding that she found the term	Mr. Kinney noted that this term was intended to help the practitioner know where to focus his efforts, as these areas are where the risk of a misstatement is higher. Mr. Kinney also explained that the Task Force's intent was to require the

Representatives' Comments	Task Force/IAASB Response
<p>“greater than acceptable level of risk” confusing. Mr. Koktvedgaard suggested that the term was understandable when read in conjunction with the rest of the standard.</p>	<p>practitioner to only understand the process used to prepare the subject matter information rather than the internal control.</p>
<p>INCLUSION OF ILLUSTRATIVE REPORTS</p>	
<p>Mmes. de Beer and Lang and Messrs. Bluhm and Morris supported the inclusion of illustrative reports and noted that the Task Force should consider ways of including long form reports as well. Ms. Lang added that the principles underlying the illustrative reports need to be clear in order for practitioner to adapt the reports to their engagement circumstances</p>	<p>Point not accepted.</p> <p>As noted in Section A below, the IAASB resolved that, in view of the need to plan for an expeditious finalization of a high-quality ISAE, the Task Force’s efforts are better concentrated on addressing the requirements and application material in the ISAE. The IAASB also noted that illustrative reports addressing different underlying subject matters are better done at a national level, where the reports can be tailored to the engagements practitioners in that jurisdiction are likely to encounter.</p>

Matters for CAG Consideration

A. Strategic Review

6. At the December 2012 IAASB meeting, the IAASB considered a paper addressing strategic options facing the ISAE 3000 revision and a way forward in bringing the project to completion. It was noted that the project is intended to be completed in September 2013 in light of other IAASB projects that are intended to commence around this time.
7. The IAASB also agreed that, as the project was intended to adopt the “Clarity” format and make changes to reflect lessons learnt from the implementation of extant ISAE 3000 (that is, a limited scope revision), not all issues identified and comments received on exposure will be resolved as some relate to issues outside of the scope of the project. For example, some suggestions would require the IAASB to, in essence, undertake a conceptual framework project addressing fundamental bases of assurance are outside of the scope of the project to revise ISAE 3000. The IAASB may, in due course, consider the need for a conceptual framework project, however the IAASB is not presently contemplating such a project.
8. Therefore, the IAASB broadly supported the Task Force’s analysis of the strategic considerations, guiding principles and recommendations for the remainder of the project. In summary, the IAASB determined that the Task Force should:
 - Aim to complete the project by September 2013;
 - Focus on responding to comments received on exposure that are within the scope of the project;

- Use terminology from recently released standards, such as ISAE 3410⁴ and ISRE 2400⁵, unless there is a significant reason to depart;
- Further refine the material addressing direct engagements;
- Determine how to address consequential amendments to other ISAEs and the Framework⁶ prior to the completion of the project, recognizing that it may be difficult to make the amendments subsequent to the completion of the project;
- Cease work on any illustrative reports; and
- Defer resolution of questions raised by both respondents and members of the Task Force on the scope of ISAE 3000 with respect to historical financial information, including vis-à-vis ISA 805.⁷

Matters for CAG Consideration

1. Do Representatives support the IAASB's strategic direction for the project, as outlined in paragraph 8.

B. Enhanced Material to Better Address Direct Engagements

Key Matters Raised on Exposure

9. A majority of respondents agreed that ED-3000 properly defines, and explains the difference between, direct engagements and attestation engagements. However, many of these respondents expressed concerns, including that:
 - More application material was needed on direct engagements, such as examples of typical direct engagements;
 - That examples of attestation engagements were needed; and
 - That application material should reinforce the differentiation between direct and attestation engagements.
10. Other respondents did not agree with the definitions of attestation and direct engagements adopted in ED-3000. Amongst other concerns, respondents variously expressed views that showed a preference for existing national standards, a belief that the definition of direct engagements is too conceptual, and that application material was needed to help practitioners interpret the definitions.
11. However, concerns existed as to whether the standard would resonate with direct engagement practitioners. In particular, some respondents believed that ISAE 3000 reflected an "attestation" or

⁴ ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

⁵ International Standards on Review Engagements (ISRE) 2400, *Engagements to Review Historical Financial Statements*

⁶ *International Framework for Assurance Engagements*

⁷ ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

“financial statement” focus. Many of these comments were based on the definition of misstatements, and the belief that they do not apply to all direct engagements.

12. For example, many respondents were of the view that the definition of “misstatements” in ED-3000 is not relevant in a direct engagement context where the practitioner has a role in preparing part or all of the subject matter information. Another respondent noted that the term “proper measurement or evaluation” which appears in the definition is not developed as a concept - and that a greater focus on the assurance process would enable definitions to better reflect the differences between the two forms of engagement. Other responses included that the definition was difficult to follow, that the term “error or fraud” should be used in the definition, and that some of the requirements which use the term “misstatement” appear to relate mostly to attestation engagements.

Task Force Response

13. The Task Force acknowledges that many respondents with backgrounds and experience in direct engagements found the application of the ISAE to their circumstances difficult. These respondents noted that the standard did not resonate with their experiences and could not recognize their experience in the requirements and application material. Instead, these respondents believed that the ISAE was too “attestation-focused”. The Task Force and IAASB staff conducted further outreach to public sector practitioners in several jurisdictions to better understand these concerns.
14. Accordingly, the Task Force has reached out to direct engagement practitioners in several jurisdictions to understand what changes could be made to the ISAE that could be completed within the parameters set by the strategic review (see paragraph 8 above). As a result on this outreach and the Task Force’s consideration of the comments received on exposure, the Task Force is proposing a number of related changes that will enable the ISAE to better address direct engagements, while retaining material that is important for attestation engagements.
15. A key component of these changes is that the paragraphs describing the practitioner’s work effort have been split so that attestation engagements and direct engagements are dealt with separately. Further, the Task Force has included a columnar structure to separate the work effort associated with limited and reasonable assurance in the same way as was done in ISAE 3410 (that is, with paragraphs marked “L” for limited assurance and “R” for reasonable assurance. Accordingly, the structure of the work effort paragraphs is as follows:

Limited Assurance: Attestation Engagements	Reasonable Assurance: Attestation Engagements
Limited Assurance: Direct Engagements	Reasonable Assurance: Direct Engagements

In this manner, the Task Force believes that practitioners performing each type of engagement can find the requirements and application material tailored to their circumstance.

16. Briefly, the key changes proposed by the Task Force in response to the concerns noted above are:
 - Objective – The objective has been broadened to include reference to the purpose and scope of the engagement. In contrast with attestation engagement (where the purpose and scope is often clear), direct engagement practitioners have to be clear on the boundaries of the engagement so the report issued will be relevant to the intended users **(see paragraph 6 of Appendix 2)**.

- Selecting or developing suitable criteria – The Task Force has included new requirements for direct engagements that cover the selection or development of the suitable criteria. The Task Force has also proposed elevating application material addressing the characteristics of suitable criteria to a requirement, in recognition that this is a critical step in ISAE 3000 due to the broad range of engagements that will be covered by the standard **(see paragraph 37AAA-42B of Appendix 2)**. An example has also been provided to illustrate a circumstance when the practitioner would have to determine the suitable criteria **(see paragraph A10 of Appendix 2)**.
 - Measurement or evaluation – a new requirement has been added to mandate that, in a direct engagement, the practitioner must perform the measurement or evaluation **(see paragraph 37AAL and 37AAR of Appendix 2)**. Further, application material has been added to clarify these terms **(see paragraph A366 of Appendix 2)**.
 - Methodology for the measurement or evaluation – An additional requirement has been added for direct engagement practitioners to develop a methodology for the measurement or evaluation which responds to the identified risks **(see paragraph 42AA(L)(c) and 42AA(R)(c) of Appendix 2)**.
 - Misstatement – The definition of ‘misstatement’ has been redrafted to better reflect direct engagements **(see paragraph 8(n) of Appendix 2)**.
17. Other changes in support of direct engagements include:
- Examples of direct and attestation engagements – these additional examples illustrate how an assurance engagement on the same underlying subject matter will differ between direct and attestation engagements **(paragraph A6B of Appendix 2)**.
 - Preconditions for an assurance engagement **(see paragraph 20(b)(ii) of Appendix 2)** – these have been edited to allow for direct engagements where the criteria may be developed after the engagement has been accepted, and to specify that the practitioner must expect to be able to obtain the evidence needed to support the practitioner’s conclusion. Application material **(see paragraph A33A Appendix 2)** support these requirements, and also highlight that in a direct engagement all of the preconditions may not be satisfied before the engagement is accepted (for example, the practitioner may not know if suitable criteria will be able to be developed).
 - Materiality – Qualitative and quantitative factors have been added to **paragraph A88 of Appendix 2** to better reflect the materiality considerations likely to arise given the broad range of engagements to which ISAE 3000 will apply.

Independence in a Direct Engagement

18. Several respondents expressed concern about the independence of practitioners in a direct engagement, as the practitioner prepares the subject matter information and may be involved in selecting the criteria. Another respondent sought to understand how users would become aware of the direct practitioner’s role in the engagement.
19. While setting independence requirements for assurance engagements is not within the role of the IAASB, the Task Force notes that the IESBA Code specifically permits direct engagements. The

practitioner in a direct engagement is independent for two reasons, being independent of the party responsible for the underlying subject matter and being independent of the underlying subject matter itself. The practitioner is not independent of the subject matter information itself, as the practitioner creates the subject matter information. This point has been added to the application material of ISAE 3000 (see paragraph A68A of Appendix 2).

Matters for CAG Consideration

2. Representatives are asked whether the revised material better addresses direct engagements.
3. Do Representatives believe that the revised material better explains the concept of independence as it applies to direct engagements?

C. Application of ISAE 3000 by Competent Practitioners

20. ED-3000 proposed that competent practitioners who are not professional accountants should be permitted to apply ISAE 3000. In permitting this, the IAASB recognized that the definition of a professional accountant⁸ excludes many assurance professionals who already perform ISAE 3000 engagements or similar engagements under national standards. For example:
 - In the US the IFAC member body is the American Institute of Certified Public Accountants (AICPA), but many accountants are licensed via state licensing authorities, and are, therefore, not required to be members of the AICPA to practice.
 - In Australia, all members of an accounting/audit firm are members of the associated IFAC member body, although they may not have assurance skills and techniques.
 - In the public sector, many of the engagement team and the engagement partners (or public sector equivalents) may not be members of an IFAC member body, despite their knowledge and experience with assurance.
21. The position adopted in ED-3000 also recognized the reality that the IAASB is not able to prevent people from asserting compliance with its standards, and that it would be preferable to instead set out clear requirements for these circumstances. This is also responsive to practical examples of assurance engagements, such as sustainability, being performed by practitioners other than professional accountants.
22. Therefore, ED-3000 required that:
 - The practitioner must have sufficient knowledge and experience with assurance skills and techniques;
 - The members of the engagement team and the engagement quality control reviewer (if any) are subject to Parts A and B of the IESBA Code issued by the IESBA related to assurance engagements, or other professional requirements, or requirements in law or regulation, that are at least as demanding; and (Ref: Para. A28–A32)

⁸ A professional accountant is defined in the IAASB Glossary as “An individual who is a member of an IFAC member body.”

- The practitioner who is performing the engagement is a member of a firm that is subject to International Standard on Quality Control (ISQC) 1,⁹ or other professional requirements, or requirements in law or regulation, regarding the firm’s responsibility for its system of quality control, that are at least as demanding as ISQC 1.
23. The majority of respondents broadly supported the position adopted in ED-3000. Respondents also suggested that, for example: safeguards, such as oversight or registration by a regulator, were needed; application by non-‘professional accountants’ should only be permitted in the public sector; the IAASB should engage in education and outreach to relevant competent practitioners; ‘professional auditors’ should be permitted to use ISAE 3000; ISRS 4410 should also be broadened to permit application by competent practitioners; requirements on professional education are needed; and the drafting of ISAE 3000 should be simplified to enhance readability for non-‘professional accountants.’ However, some respondents disagreed with the extension to non-‘professional accountants’, noting, for example, that it may lead to inconsistent quality, that these practitioners may lack sufficient assurance skills and experience, and that it may inadvertently scope in some internal audit engagements.
24. The IAASB supported application of proposed ISAE 3000 (Revised) by competent practitioners other than professional accountants. This decision also means that the individuals who may be “professional accountants” but are not assurance professionals (ie, those that do not have sufficient knowledge and experience with assurance skills and techniques) are not able to apply the standard. The IAASB also supported the Task Force’s proposal to include a new requirement for such competent practitioners to specify the code of ethics and quality control requirements used in their assurance reports.

Matters for CAG Consideration

4. Do Representatives support the IAASB’s plan to permit application of ISAE 3000 by competent practitioners other than professional accountants, while requiring disclosures of the code of ethics and quality control requirements applied by these practitioners?

D. Approach to Limited Assurance (LA)

25. At its December 2012 meeting, the IAASB agreed to use language consistent with that used in recent standards such as ISAE 3410 and ISRE 2400 when setting requirements for LA. In making this decision, the IAASB recognized that using consistent language with these standards, and language that is plainer and simpler, would enable practitioners to better understand the ISAE.
26. The effect of this decision is that the terms “may,” “likely,” and “not likely” are used in key requirements on the practitioners work effort for LA. Accordingly, the Task Force has given further consideration to the work effort paragraphs to ensure they accurately describe the IAASB’s intentions. For example (emphasis added):

⁹ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

Project History

Project: Proposed revised ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information

Summary

	CAG Meeting	IAASB Meeting
Project Commencement	March 2009	March 2009
Development of Proposed International Pronouncement (up to Exposure)	March 2010 September 2010 March 2011	June 2009 December 2009 March 2010 June 2010 September 2010 December 2010 March 2011
Exposure	March 2011 – September 2011	
Consideration of Respondents' Comments on Exposure	March 2012 (Update) September 2012 April 2013	June 2012 September 2012 December 2012 February 2013 April 2013

CAG Discussions: Detailed References

Project Commencement	<p><u>March 2009</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4655</p> <p>See CAG meeting minutes (part of Agenda Item G of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5589</p> <p>See report back on March 2009 CAG meeting (in paragraph 9 of the following material):</p>
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	<p>http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5265</p>
<p>Development of Proposed International Pronouncement (Up to Exposure)</p>	<p><u>March 2010</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5266</p> <p>See CAG meeting minutes (in Agenda H of the following material): http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211</p> <p>See report back on March 2010 CAG meeting (in paragraph 7 of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5695</p> <p><u>September 2010</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5695</p> <p>See CAG meeting minutes (in Agenda Item R of the following material): http://www.ifac.org/sites/default/files/meetings/files/5946_0.pdf</p> <p>See report back on September 2010 meeting (in paragraph 6 of the following material): http://www.ifac.org/sites/default/files/meetings/files/6025_0.pdf</p>
<p>Consideration of Respondents' Comments</p>	<p><u>March 2012</u></p> <p>See IAASB CAG meeting material (Update): http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-AgendaItem_E6-Project_Updates-v2.pdf</p> <p>See CAG meeting minutes (in Agenda Item E of the following material): http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_A_Draft_March%202012_Public%20Minutes-final-marked.pdf</p> <p><u>September 2012</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_D-ISAE-3000-v2.pdf</p> <p>See CAG meeting minutes (in Agenda Item D of the following material): See draft September 2012 CAG meeting minutes at Agenda Item A.</p>

Key Paragraphs Illustrating Changes in Support of Direct Engagements

Objectives

6. In conducting an assurance engagement, the objectives of the practitioner are:
- (a) Given the purpose and scope of the engagement, to obtain either reasonable assurance or limited assurance, as appropriate, about whether the subject matter information (that is, the reported outcome of the measurement or evaluation of the underlying subject matter) is free from material misstatement;
 - (b) To express a conclusion, in the context of the purpose and scope of the engagement, regarding the outcome of the measurement or evaluation of the underlying subject matter through a written report that conveys either reasonable or limited assurance and describes the basis for the conclusion; (Ref: Para. A1) and
 - (c) To communicate further as required by this ISAE and any other relevant ISAEs.

* * *

- 8(n) Misstatement— A difference, departure or deviation of the subject matter information from the appropriate measurement or evaluation of the underlying subject matter in accordance with the suitable criteria. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions. This definition applies to all assurance engagements under the ISAEs, including those where the practitioner's conclusion is, or is part of, the subject matter information. (Ref: Para. A7, A7A)

* * *

Preconditions for the Assurance Engagement

20. In order to establish whether the preconditions for an assurance engagement are present, the practitioner shall determine whether: (Ref: Para. A33-A33B)
- (a) The roles and responsibilities of the appropriate parties are suitable in the circumstances; and (Ref: Para. A34–A36)
 - (b) The engagement exhibits all of the following characteristics:
 - (i) The underlying subject matter is appropriate; (Ref: Para. A37–41)
 - (ii) The criteria that the practitioner expects to apply in the preparation of the subject matter information will be available to the intended users and are suitable to the engagement circumstances, including that they exhibit the following characteristics: (Ref: Para. A42–A49)
 - (A) Relevance.
 - (B) Completeness.

- (C) Reliability.
- (D) Neutrality.
- (E) Understandability.
- (iii) The practitioner will be able to obtain the evidence needed to support the practitioner's conclusion; (Ref: Para. A50–A52)
- (iv) The practitioner's conclusion, in the form appropriate to either a reasonable assurance engagement or a limited assurance engagement, is to be contained in a written report; and
- (v) A rational purpose including, in the case of a limited assurance engagement, that meaningful assurance can be obtained. (Ref: Para. A53)

* * *

Understanding the Underlying Subject Matter and Other Engagement Circumstances

Attestation Engagements

Limited Assurance	Reasonable Assurance
<p>37(L).When performing an attestation engagement, the practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:</p> <ul style="list-style-type: none"> (a) Enable the practitioner to identify areas where material misstatements of the subject matter information are likely to arise; and (b) Thereby, provide a basis for designing and performing procedures to address the areas identified in paragraph 37(L)(a) and to obtain limited assurance to support the practitioner's conclusion. (Ref: Para. A92–A93A) 	<p>37(R). When performing an attestation engagement, the practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:</p> <ul style="list-style-type: none"> (a) Enable the practitioner to identify and assess the risks of material misstatement in the subject matter information; and (b) Thereby, provide a basis for designing and performing procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner's conclusion.
<p>37A(L). When performing an attestation engagement, in obtaining an understanding of the underlying subject matter and other engagement circumstances under paragraph 37(L), the</p>	<p>37A(R).When performing an attestation engagement, in obtaining an understanding of the underlying subject matter and other engagement circumstances under paragraph 37(R), the</p>

<p>practitioner shall consider the process used to prepare the subject matter information. (Ref: Para. A93B)</p>	<p>practitioner shall obtain an understanding of internal control over the preparation of the subject matter information relevant to the engagement. This includes evaluating the design of those controls and determining whether they have been implemented by performing procedures in addition to inquiry of the personnel responsible for the subject matter information.</p>
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Direct Engagements

<p style="text-align: center;">Limited Assurance</p>	<p style="text-align: center;">Reasonable Assurance</p>
<p>37AAA(L)The practitioner shall obtain a preliminary understanding of how the purpose of the engagement can be achieved, including selecting or developing the proposed suitable criteria. In obtaining this preliminary understanding, the practitioner shall select or develop, at a preliminary level, the suitable criteria. (Ref: Paragraph. A33C, A91B)</p> <p>37AA(L). When performing a direct engagement, the practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:</p> <p>(a) Enable the practitioner to:</p> <ul style="list-style-type: none"> (i) Consider whether the preliminary selection or development of the suitable criteria is appropriate, or select or develop further suitable criteria if needed; (ii) Identify areas where material misstatement of the measurement or evaluation of the underlying subject matter against the suitable criteria are likely to arise; and (iii) Develop a methodology for the measurement or 	<p>37AAA(R)The practitioner shall obtain a preliminary understanding of how the purpose of the engagement can be achieved. In obtaining this preliminary understanding, the practitioner shall select or develop, at a preliminary level, the suitable criteria. (Ref: Paragraph. A33C, A91B)</p> <p>37AA(R). When performing a direct engagement, the practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:</p> <p>(a) Enable the practitioner to</p> <ul style="list-style-type: none"> (i) Consider whether the preliminary selection or development of the suitable criteria is appropriate, or select or develop further suitable criteria if needed; (ii) Identify and assess the risks of a material misstatement in the measurement or evaluation of the underlying subject matter against the suitable criteria; and (iii) Develop a methodology for

<p>evaluation; and</p> <p>(b) Thereby, provide a basis to perform the measurement or evaluation by applying suitable criteria to the underlying subject matter and to address the areas identified in paragraph 37AA(L)(a) by designing and performing procedures and obtaining limited assurance to support the practitioner’s conclusion. (Ref: Para. A92–A93, A93C)</p>	<p>the measurement or evaluation; and</p> <p>(b) Thereby, provide a basis to perform the measurement or evaluation by applying suitable criteria to the underlying subject matter and to respond to the assessed risks by designing and performing procedures that are responsive to the assessed risks and obtaining reasonable assurance to support the practitioner’s conclusion.</p>
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Risk Consideration and Responses to Risks

Attestation Engagements

<p>Limited Assurance</p>	<p>Reasonable Assurance</p>
<p>42(L). In an attestation engagement, based on the practitioner’s understanding (see paragraph 37(L)), the practitioner shall: (Ref: Para. A95A)</p> <p>(a) Identify areas where material misstatement of the subject matter information are likely to arise;</p> <p>(b) Design and perform procedures to address the areas identified in paragraph 42(L)(a) and to obtain limited assurance to support the practitioner’s conclusion.</p>	<p>41(R). In an attestation engagement, based on the practitioner’s understanding (see paragraph 37(R)) the practitioner shall:</p> <p>(a) Identify and assess the risks of material misstatement in the subject matter information;</p> <p>(b) Respond to assessed risks by designing and performing procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner’s conclusion. In addition to any other procedures on the subject matter information that are appropriate in the engagement circumstances, the practitioner’s procedures shall include obtaining sufficient appropriate evidence as to the operating effectiveness of relevant controls over the subject matter information when:</p> <p>(a) the practitioner’s assessment of the risks of material misstatement includes an expectation that</p>

<p>42A(L). If the practitioner becomes aware of a matter(s) that causes the practitioner to believe that the subject matter information may be materially misstated, the practitioner shall design and perform additional procedures to obtain further evidence until the practitioner is able to:</p> <ul style="list-style-type: none">(a) Conclude that the matter is not likely to cause the subject matter information to be materially misstated; or(b) Determine that the matter(s) causes the subject matter information to be materially misstated.	<p>controls are operating effectively, or</p> <ul style="list-style-type: none">(b) procedures other than testing of controls cannot alone provide sufficient appropriate evidence; and(c) Based on the procedures performed and the evidence obtained, evaluating, before the completion of the engagement, whether the practitioner's assessment of the risks of material misstatement remains appropriate. (Ref: Para. A96-A97)
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Direct Engagements

Limited Assurance	Reasonable Assurance
<p>42AA(L) In a direct engagement, based on the practitioner's understanding (see paragraph 37AA(L), the practitioner shall: (Ref: Para. A95A)</p> <ul style="list-style-type: none"> (a) Consider whether the preliminary selection or development of the suitable criteria is appropriate, or select or develop further suitable criteria if needed; (b) Identify areas where material misstatement of the subject matter information are likely to arise; (c) Develop a methodology for the measurement or evaluation that responds to the assessed risks; (d) Address the areas identified in paragraph 42AAL(b) by: <ul style="list-style-type: none"> (i) Performing the measurement or evaluation by applying the suitable criteria to the underlying subject matter; and (ii) Designing and performing procedures; to obtain limited assurance to support the practitioner's conclusion <p>42B(L). If the practitioner becomes aware of a matter(s) that causes the practitioner to believe that the subject matter information may be materially misstated, the practitioner shall design and perform additional procedures to obtain further evidence until the practitioner is able to:</p>	<p>41AA(R). In a direct engagement, based on the practitioner's understanding (see paragraph 37AA(R)), the practitioner shall:</p> <ul style="list-style-type: none"> (a) Consider whether the preliminary selection or development of the suitable criteria is appropriate, or select or develop further suitable criteria if needed; (b) Identify and assess the risks of material misstatement in the subject matter information (c) Develop a methodology for the measurement or evaluation that responds to the assessed risks; (d) Respond to assessed risks by: <ul style="list-style-type: none"> (i) Performing the measurement or evaluation by applying the suitable criteria to the underlying subject matter; (ii) Designing and performing procedures that are responsive to the assessed risks and to obtain reasonable assurance to support the practitioner's conclusion; and (Ref: Para. A95A) (d) Based on the procedures performed and the evidence obtained, evaluate before the completion of the engagement whether the practitioner's assessment of the engagement risks remains appropriate. (Ref: Para. A96)

<p>(a) Conclude that the matter is not likely to cause the subject matter information to be materially misstated; or</p> <p>(b) Determine that the matter(s) causes the subject matter information to be materially misstated.</p>	
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A6B. Examples of attestation engagements and direct engagements on the same subject matter include:

- (a) Sustainability - An attestation engagement on sustainability involves obtaining assurance on a report prepared by management or management's expert (the measurer or evaluator) on the sustainability performance of the entity. A direct engagement on sustainability involves determining the sustainability criteria to apply and then obtaining assurance on the entity's sustainability performance directly (as the measurer or evaluator). The sustainability report would then be presented in the practitioner's report.
- (b) Compliance with law or regulation – an attestation engagement on compliance with law or regulation involves obtaining assurance on a statement by another party (the measurer or evaluator) of compliance with the relevant law or regulation. A direct engagement on compliance with law or regulation involves applying the relevant provisions of the law or regulation as the suitable criteria and then obtaining assurance on whether the law or regulation has been complied with (as the measurer or evaluator). The statement on compliance with law or regulation would then be presented in the practitioner's report.
- (c) Value for money - an attestation engagement on value for money involves obtaining assurance on a measurement or evaluation of value for money by departmental officials (the measurer or evaluator) on a particular government program. A direct engagement on value for money involves selecting or developing criteria to measure value for money and then obtaining assurance on whether a government program is obtaining sufficient public benefit for the money expended (as the measurer or evaluator). The statement on whether value for money had been achieved for this program is then presented in the practitioner's report.

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A10. In some direct engagements, the applicable criteria may be determined by another party. In other direct engagements, however, the practitioner selects or develops the applicable criteria. For example, this may be the case when a public sector auditor is required by the legislature to conduct an assurance engagement, but when the applicable criteria are not specified. When the practitioner selects or develops the applicable criteria, and more than one set of relevant established criteria exist or the practitioner develops the applicable criteria, particular care may be needed to assess their suitability in the circumstances of the engagement since there is no

independent review of practitioner's professional judgment. It may be appropriate in such cases to discuss the choice of criteria with the appropriate party(ies) and disclose in the assurance report the basis for using a particular set of criteria the practitioner has selected or developed. (See also paragraph A68.) When the practitioner selects or develops the applicable criteria, it may also be appropriate to reassess the criteria throughout the engagement, which may assist in ensuring that they remain suitable for the engagement (see paragraph 37).

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Acceptance and Continuance

Preconditions for the Engagement (Ref: Para. 20)

A33A. In a direct engagement, circumstances may require the practitioner to commence the assurance engagement in order to obtain information that the preconditions can be satisfied. For example, in a direct engagement when the practitioner develops the criteria, the practitioner may not be able to determine if suitable criteria will be available until the assurance engagement has commenced.

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A68A. In a direct engagement, the practitioner is independent of the underlying subject matter and the responsible party when performing the measurement or evaluation, and is not subject to the bias, whether intentional or unintentional, that may result from the measurement or evaluation being performed by the responsible party..

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A88. Qualitative factors may include such things as:

- The number of persons or entities affected by the subject matter.
- The interaction between, and relative importance of, various components of the subject matter information when it is made up of multiple components, such as a report that includes numerous performance indicators.
- The wording chosen with respect to subject matter information that is expressed in narrative form.
- The characteristics of the presentation adopted for the subject matter information when the applicable criteria allow for variations in that presentation.
- The nature of a misstatement, for example, the nature of observed deviations from a control when the subject matter information is a statement that the control is effective.
- Whether a misstatement affects compliance with law or regulation.

- In the case of periodic reporting on an underlying subject matter, the effect of an adjustment that affects past or current subject matter information or is likely to affect future subject matter information.
- Whether a misstatement is the result of an intentional act or is unintentional.
- Whether a misstatement is significant having regard to the practitioner's understanding of known previous communications to users, for example, in relation to the expected outcome of the measurement or evaluation of the underlying subject matter.
- Whether a misstatement relates to the relationship between the responsible party, the measurer or evaluator, or the engaging party or their relationship with other parties.
- When a threshold or benchmark value has been identified, whether the result of the procedure deviates from that value.
- When the underlying subject matter is a governmental program or public sector entity, whether a particular aspect of the program or entity is significant with regard to the nature, visibility and sensitivity of the program or entity.
- When the subject matter information relates to a conclusion on compliance with law or regulation, the seriousness of the consequences of non-compliance.