



European Federation of Accountants and Auditors for SMEs

International Auditing and Assurance Standards Board (IAASB)
545 Fifth Avenue, 14th Floor
New York, New York
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Attn. IAASB Technical Director
Brussels, 1 September 2011

Dear Sir

Comment on ED ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

The European Federation of Accountants and Auditors for SMEs (“EFAA”) represents accountants and auditors providing professional services primarily to small and medium-sized entities (“SMEs”) both within the European Union and Europe as a whole. Constituents are mainly small practitioners (“SMPs”), including a significant number of sole practitioners. EFAA’s members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, and tax and business advice) to SMEs.

EFAA appreciates the opportunity to comment on the IAASB ED ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. Our comments are made in relation to the areas outlined below.

General comments on framework

We believe that the “Framework” is useful in providing an overview of assurance concepts and is helpful to readers and practitioners in understanding the relationships, links and differences between the various assurance engagements and should therefore not be withdrawn.

As a framework we consider that it should contain only principles and concepts in order to achieve its objectives of facilitating understanding of assurance engagements. We strongly suggest that the Framework be reconsidered. Until then there should be no change in its authoritative nature and its content.

General comments on ED ISAE 3000

The concept of ISAE 3000 as an umbrella standard should be well understood by users. However it should be capable of being applied as a stand alone standard and it should be drafted in a consistent manner and in line with all IAASB pronouncements so as not to be contradictory to other IAASB assurance standards. It should also be in line with the subject specific standards that follow after this has been revised.



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In an SME / SMP context we note that ISAE 3000 is complex and not easily understood on first reading. We believe that all of the following would assist its comprehension and its implementation:

- Consistent use of IAASB terminology;
- Consistent drafting convention of IAASB pronouncements such that, for example, the references and linkages to ISQC 1 and the IESBA code are clear;
- Provision of examples of the differences between limited and reasonable assurance in documents on a consistent manner; and
- Provision of examples of engagements that adopt the use of limited and reasonable assurance for application purposes so illustrating how such standards could be applied in a practical environment.

Request for Specific Comments

Our comments on specific matters are set out below.

1. Do respondents believe that the nature and extent of requirements in proposed ISAE 3000 would enable consistent high quality assurance engagements while being sufficiently flexible given the broad range of engagements to which proposed ISAE 3000 will apply?

We acknowledge that one of the objectives of the proposed ISAE 3000 is to include general requirements that cover all significant areas of non-audit assurance engagements other than those involving the review of historical financial information in an attempt to harmonise and improve practices around the world.

In general we believe that the objective of the proposed ISAE 3000 should enable consistent high quality assurance engagements and could be sufficiently flexible. However, it is not clear whether all requirements are applicable for different engagements (reasonable versus limited assurance engagements and direct versus attestation engagements). We recommend that this is clearly stated.

We also believe that consistent application would be assisted by consistent drafting. We believe that there is merit in the ISAE 3000 being drafted in a manner consistent with IAASB pronouncements. We note that there is an element of duplication as multiple references are made to ISQC 1. We would suggest that this is dealt with in a similar manner to that of other IAASB standards with a section at the beginning of the proposed ISAE 3000 establishing the “Relationship with ISQC 1” and then the ethical requirements being dealt with as part of the definitions as, for example, in ISRE 2400.

We note that the proposed ISAE 3000 continues to recognise the potential for limited and reasonable assurance to be provided and then proceeds to define and set out the differences between both types of assurance. We wonder if there would be merit in using the columnar format currently used in both ED 3410 on “Greenhouse Gas Statements” and in the “Framework” to distinguish between reasonable and limited engagements and between direct and attestation engagements. We would also suggest that duplication of requirements in the proposed ISAE 3000 and subject-specific ISAEs should be avoided and more guidance could be added in the application material clearly explaining the relationship between ISAE 3000 as an umbrella standard and subject specific ISAEs. Given this structure it would be reasonable for subject specific engagements to deal only with additional requirements relevant for that engagement.

ISAE 3000 introduces the concept of qualitative factors in considering materiality but the principles of materiality applied in a quantitative context do not easily translate. We consider that further guidance in this area would be of



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merit to assist practitioners, particularly with respect to those assurance engagements that deal more extensively with non-financial information.

Whilst we welcome all efforts to raise the quality of assurance engagements we wonder whether it is possible to do so in a consistent manner in one document which seeks to address a wide range of engagements.

The SME and SMP marketplace is in general a much less complex environment and ISAE 3000 should be capable of being used in this sector. The proposed ISAE 3000 is complicated, its linkage to other standards and the framework is difficult to comprehend on first reading and these factors do not encourage the use in the SME and SMP context. Much has been written about the proportionality of ISAs and the common view is that they are scalable and able to be applied in SME engagements. We have some concerns over whether the framework and ISAE 3000 in their current form are conducive to being adopted in an SME / SMP. Unless all the major engagements have subject matter specific standards, it is difficult to envisage the economic use of ISAE 3000 and the framework for SMEs.

2. With respect to levels of assurance:

(a) Does proposed ISAE 3000 properly define, and explain the difference between, reasonable assurance engagements and limited assurance engagements?

The theoretical concept is clear but we wonder whether it would be of value to highlight the differentiation between reasonable assurance engagements and limited assurance engagements for practical application. The IAASB could consider using the format currently employed in ISAE 3410 to do this (as we have already stated above) and then align the drafting of ISAE 3410 and ISAE 3000 for consistency which we believe has merit.

We also wonder whether the definition in para.8 (a), (1) b would be enhanced by reinforcing the definition with the term 'limited' as follows:

“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 limited level of assurance that is, in the practitioner’s professional judgment, meaningful to the intended users.”

We would further suggest that examples of the different types of assurance procedures are given so as to assist consistent high quality application of ISAE 3000. The provision of examples may be of particular relevance for the use of the ED by SMPs with limited resources and who in general cannot call on the provision of application material by an in-house technical department as is the case for larger firms.

It is also likely that third parties in the SME / SMP context may have a lower level of appreciation of the standard and of the practical differences and implications of limited versus reasonable assurance. Parties to such engagements usually require the SMP to provide the level of assurance that is needed using the SMP’s experience but undoubtedly this may be seen as the highest level possible by the third party. This may thus negate the opportunity for limited assurance or indeed blur the edges of the distinctions between limited and reasonable assurance and as such may not necessarily achieve the IAASB’s intended objectives.



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In this respect we would like to raise some questions which outline possible confusion:

- How can the practitioner be sure he has identified all intended users?
- How is the practitioner able to establish the level of assurance with all "the intended users" that is meaningful for them?
- How can the practitioner be sure all the intended users attribute the appropriate level of meaningful assurance commensurate to the procedures carried out by the practitioner (expectation gap)?

We believe there may be merit in the standard alerting practitioners that in some circumstances there may be no meaningful level of assurance except that of reasonable assurance.

(b) Are the requirements and other material in proposed ISAE 3000 appropriate to both reasonable assurance engagements and limited assurance engagements?

As we have already stated, we wonder whether there is sufficient guidance provided on the procedures that need to be performed and suggest that ISAE 3000 should include specific planning considerations to this end.

We accept that the standard is intentionally broad and as a consequence it is not feasible to address all procedures for the different underlying subject matters but it would be useful to have more guidance on the procedures to be performed. These could cover, for example, the nature of overall analytical procedures, which we believe necessary in almost all cases to achieve a meaningful level of limited assurance.

Many firms, particularly SMPs, will use software for audits that includes a risk model related to reasonable assurance. We anticipate that firms will seek to adapt their use of such software both to reviews and to other assurance engagements on subject matter information of sufficient complexity. It is important, therefore, that ISAE 3000 continues to be understandable when viewed from this perspective as well as forming a stand-alone document.

(c) Should the proposed ISAE 3000 require, for limited assurance, the practitioner to obtain an understanding of internal control over the preparation of the subject matter information when relevant to the underlying subject matter and other engagement circumstances?

We agree that, for limited assurance engagements, there should be no requirement to obtain an understanding of internal control. Where internal control is relevant to the preparation of subject matter information, this may be, but should not be required to be, addressed by the practitioner as part of obtaining an understanding of the underlying subject matter and other engagement circumstances.

We are unclear as to why the "risk model" is not explicitly stated in the ISAE 3000 in respect of "limited assurance" and we would recommend that ISAE 3000 specifically covers risk assessment to enable practitioners to determine the nature and extent of procedures using such an approach.

The sufficiency of an understanding is a matter of professional judgement and it is not appropriate to impose a requirement on the practitioner concerning that degree of sufficiency (as in paragraph 37) particularly for a limited assurance engagement where risk is not assessed precisely.



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3. With respect to attestation and direct engagements:

(a) Do respondents agree with the proposed changes in terminology from "assurance-based engagements" to "attestation engagements" as well as those from "direct-reporting engagements" to "direct engagements"?

We cannot see any real benefit in changing the terminology and hence we would recommend that it is not altered given the fact that the principles have remained the same. We would assert that it is more important to have clear definitions that can be easily translated and understood.

We observe that from the perspective of the engaged party (practitioner) the proposed change in wording may be preferable, especially the term direct engagement but from the perspective of the engaging party and (intended) users the extant terms may be more easily understood. For example, the term 'direct reporting engagement' or even 'direct reporting assurance engagement' may be better understood than solely 'direct engagement' and the term 'assertion based (assurance) engagement' leaves it unclear as to whether a reasonable or limited assurance engagement is being undertaken whilst the term 'attestation engagement' may be more readily associated with a reasonable assurance engagement rather than a limited assurance engagement.

(b) Does proposed ISAE 3000 properly define, and explain the difference between, direct engagements and attestation engagements?

The concept is understood but it might be useful to include more examples to further clarify the engagement as direct or attestation throughout the ISAE 3000.

Although distinction is one of obtaining evidence and in being independent from the underlying subject matter, this might not be easily understood by users. The practitioner may have prepared the evidence that the assurance is based on and he may not be independent of the subject matter information. We would recommend that ISAE 3000 clarifies how a practitioner obtains evidence in a direct engagement whilst maintaining independence and quality control procedures and we note that this may be particularly relevant for SMEs and SMPs.

(c) Are the objectives, requirements and other material in the proposed ISAE 3000 appropriate to both direct engagements and attestation engagements? In particular:

(i) In a direct engagement when the practitioner's conclusion is the subject matter information, do respondents believe that the practitioner's objective in paragraph 6(a) (that is, to obtain either reasonable assurance or limited assurance about whether the subject matter information is free of material misstatement) is appropriate in light of the definition of a misstatement (see paragraph 8(n))?

Yes we believe that it is appropriate.

The definition of materiality for direct engagements differs from the definition used in an audit. The definition of "misstatement" in paragraph 8(n) uses the terminology "... intentional or unintentional" with the usual terminology being "error and fraud" with regard to audits. We wonder whether it is necessary to change this terminology and would recommend that guidance is issued on how a practitioner would deal with fraud in an assurance engagement, as this is currently not provided.



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As previously stated one of the objectives of ISAE 3000 is to harmonise and improve practices and this would be assisted by the IAASB having consistent terminology in all of its standards and by adoption of consistent approaches such that the standards are implemented in a consistent manner.

(ii) In some direct engagements the practitioner may select or develop the applicable criteria. Do respondents believe the requirements and guidance in proposed ISAE 3000 appropriately address such circumstances?

We doubt that it is clear in which cases the practitioner should select or develop the applicable criteria and suggest therefore that further guidance in this respect or indeed some examples would be useful.

4. With respect to describing the practitioner's procedures in the assurance report:

(a) Is the requirement to include a summary of the work performed as the basis for the practitioner's conclusion appropriate?

Yes. We believe that the practitioner should state clearly which procedures he has performed in both limited and reasonable assurance reports but we believe that this should be done without making the report unwieldy as it is already quite long.

(b) Is the requirement, in the case of limited assurance engagements, to state that the practitioner's procedures are more limited than for a reasonable assurance engagement and consequently they do not enable the practitioner to obtain the assurance necessary to become aware of all significant matters that might be identified in a reasonable assurance engagement, appropriate?

We do not believe that this is appropriate and we question whether this would be clear from the perspective of a user. We would support the position where the practitioner clearly explains what work has been performed rather than referring to procedures not performed.

(c) Should further requirements or guidance be included regarding the level of detail needed for the summary of the practitioner's procedures in a limited assurance engagement?

We do not believe that this is necessary.

5. Do respondents believe that the form of the practitioner's conclusion in a limited assurance engagement (that is, "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") communicates adequately the assurance obtained by the practitioner?

We believe that the same issues as those in ED ISRE 2400 are applicable for limited assurance reports. We are concerned that the conclusion for a limited assurance report would not be understood by users and we wonder whether the users understand the difference between reasonable and limited assurance engagements.

We thus repeat our views on this issue as follows:



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We believe that the use of positive wording in any report would always be an advantage to the implementation and application. As a general rule it is easier for an SMP to sell a professional service when he can state “what has been done” and “what is positively reported”.

In some jurisdictions, the negative form of conclusion is recognised and accepted. Elsewhere, such reporting is poorly understood and certainly does not emphasise the value of the engagement.

We suggest that ISAE 3000 should deal with the principles of reporting and not seek to prescribe the detailed wording of reports. International standards are frequently used in translation and should acknowledge that the understanding of negative reporting varies between jurisdictions. A positive form of reporting can refer directly to the nature of the assurance rather than relying on a user inferring that negative wording relates to limited assurance.

Practitioners should be encouraged to consider expanding the explanation of the engagement itself and their own competencies to provide users with a better insight into the value of the engagement. This is important because, in many jurisdictions, review work is not restricted by law to professional accountants (in contrast to audit) so there is no statutory basis on which users can rely regarding the ability of a particular practitioner to perform the engagement.

6. With respect to those applying the standard:

(a) Do respondents agree with the approach taken in proposed ISAE 3000 regarding application of the standard by competent practitioners other than professional accountants in public practice?

Yes. This is appropriate if other competent practitioners comply with equivalent requirements to those in ISQC 1 and the IESBA Code.

We note that paragraph 61 refers to the “work of a practitioner’s expert” and we have concerns over whether it is appropriate to include such a reference in assurance reports. Engagement teams often consist of professionals with other skills and as the practitioner accepts sole responsibility we see no justification for highlighting the composition of the engagement team in the report and from deviating from the approach used for audit engagements in accordance with ISA 620.

(b) Do respondents agree with proposed definition of “practitioner”?

We would suggest that the definition of practitioner is consistent to that included within the ISAs and that the IAASB adopt consistent definitions in its pronouncements.



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Other Comments

Translation, adoption and effective date

Translation and adoption in developing countries would be assisted by the use of plain English. Additionally, some of our members believe that the translation issues may warrant delaying mandatory implementation for a period of 24 months after the issue of the standard.

Example assurance engagements

We are happy to provide the following examples of engagements of this type undertaken and will be pleased to provide further information on request.

Attestation engagements under Italian Company Law in connection with the:

- underwriting of capital of limited liability companies when performed in specie;
- transformation of an unlimited liability company into a limited liability company; and
- merger of companies.

Attestation engagements under Italian Insolvency Law in connection with the:

- restructuring plans of companies when avoiding insolvency;
- arrangement with creditors (“concordato preventivo”); and
- agreement to restructure corporate debts following a court application.

I trust that the above is comprehensive but should you have any questions on our comments, please do not hesitate to contact me.

Yours faithfully,

Federico Diomeda
Chief Executive Officer