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Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
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Dear Board Members and Staff

Exposure Draft – ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

Grant Thornton International appreciates the opportunity to comment on the Exposure Draft – ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. We respectfully submit our comments thereon. Our responses to the specific questions and other matters are included in Appendix I with comments on specific paragraphs in Appendix II.

Overall, we feel that the proposed standard provides more guidance in important areas such as planning, materiality, engagement risk, subject matter, criteria and the like. The content will improve the consistency and comparability of reporting internationally.

However, we feel that the proposed standard has a fatal flaw that we would like to see the board address. We are concerned that, for certain direct engagements, a practitioner cannot, in fact and appearance, be sufficiently objective. Our response to question 3(c) details our concerns.

We would be pleased to discuss this letter with you. Please contact Richard Wood at 1.905.466.8710 if you have questions.

Sincerely,

A handwritten signature in black ink that reads "Kenneth C. Sharp". The signature is written in a cursive, professional style.

Grant Thornton International Ltd
Kenneth C. Sharp
Global Leader - Assurance Services

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?

Yes. The proposed standard provides more guidance in the areas of planning, materiality, engagement risk, subject matter, criteria and direct reporting and will improve the consistency and comparability of reporting internationally. Subject to our comments below and in Appendix II on the need for greater clarity and guidance in certain areas, we believe that the standard is sufficiently flexible to support the broad range of engagements.

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?

Yes. - We are comfortable with the definition of a reasonable assurance engagement and a limited assurance engagement.

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

Yes.

(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?

Yes. We agree that a practitioner should not be required to gain an understanding of internal control in a limited assurance engagement. Such a requirement, if necessary, is better addressed through subject-matter specific ISAEs.

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 are unsure as to why the board decided to make the changes in terminology and believe the change may cause confusion. In some jurisdictions there is a separation between audit standards and attestation standards, but both suites of standards are assurance engagements. Practitioners in those jurisdictions may infer from the new terminology that the fundamental principles set out in the assurance framework do not apply to audits. In addition, under the proposed framework, “direct” engagements are intended to be “assurance” engagements, but not specifically “attestation” engagements. This classification may cause more confusion with regard to the difference with direct-reporting engagements that are attestation engagements (as defined by the framework) and direct engagements. It may just be that we need different terms here to describe the differences. We propose that the board reconsider their proposals to change the terminology, or introduce terminology that is understandable at international and national level.

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

We do not believe it is necessary, for the purpose of defining an attestation engagement, to discuss *where* the subject matter information might be presented. In our view, what is important in the definition of an attestation engagement is that the subject matter information is in the *form of an assertion* by the responsible party. We therefore recommend that the board further clarify the definitions and have included some proposed wording in Appendix II.

In addition, whilst we understand the use of the terminology "measure and evaluate" when describing the difference between the practitioners role in a direct engagement compared to an attestation engagement, we question whether some users might confuse this terminology with the practitioners role in performing assurance procedures (i.e., the practitioner evaluates when performing tests of subject matter information). We therefore recommend that the board define "measure and evaluate", to demonstrate that measure and evaluate is the process of applying criteria to subject matter in order to prepare subject matter information (as opposed to measuring and evaluating when performing tests).

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

We agree with the general approach in the proposed ISAE. However, as indicated in our comments on specific paragraphs (Appendix II), we have some concerns as to the clarity, extent and depth of some of the requirements and guidance.

For certain direct engagements, we also have a concern about whether a practitioner can, in fact and in appearance, perform the assurance engagement with sufficient objectivity. The direct engagements that concern us are:

- An engagement where measuring the subject matter involves significant judgment and
- An engagement where the practitioner develops the measurement criteria.

Paragraph A68 recognizes the challenge that direct engagements may create regarding the practitioner's objectivity and discusses the challenges in the context of quality control. We feel that this guidance would be better placed with the client acceptance requirements.

The value of this guidance would be further enhanced by addressing the two situations raised above. Perhaps the first situation could be highlighted by way of an example when safeguards do not reduce the threat to an acceptable level.

The second situation is more problematic. We believe that a practitioner could assist in the development of criteria. However, we do not believe a practitioner could develop the criteria *and* employ safeguards to sufficiently mitigate the threat to his or her objectivity. Accordingly, we feel the wording of the standard should be modified to address this concern.

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.

(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?

No, please see our comments above.

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?

We do not support the requirement to include an informative summary of the work performed as currently described in Paragraph 60(k). We also raised this concern in our comment letter on proposed International Standard on Assurance Engagements (ISAE) 3410, Assurance Engagements on Greenhouse Gas Statements submitted on 17 June 2011.

As explained more fully in that comment letter, in our view the practitioner's objective is to obtain a level of assurance that is assessed as limited or reasonable in the circumstances and to report on that basis alone. Paragraph 60(k) implies an approach that requires the practitioner to describe in some detail the procedures performed to obtain limited assurance. Such a detailed description carries the risk that the reader will derive a false sense of assurance from the procedures described (including a higher level of assurance than that obtained from a reasonable assurance report). It will also lead to significant inconsistency in the description of work performed across 'limited assurance' reports on similar subject matter or subject matter information.

We do, however, continue to support current practice; a brief statement on the work performed in the scope paragraph (e.g., a statement that a review is limited primarily to inquiries and analytical procedures).

(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?

Yes.

(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?

Yes. If the board concludes that the proposed reporting is desirable we believe that further guidance is needed for practitioners to understand the nature and extent of the 'summary' that is envisioned. Absent further guidance it will be very difficult for practitioners to meet the requirement of balanced and meaningful reporting.

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 strongly support the proposed form of the practitioner's unmodified conclusion (i.e., "nothing has come to the practitioner's attention that causes the practitioner to

believe...”). We agree with the board's decision that alternative positive expressions could cause users to misinterpret the limited assurance obtained by the practitioner.

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.

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

Yes.

Paragraph	Comment
6 Objective	<p>Paragraph 6(a) uses a defined term <i>subject matter information</i>, a term that is not fully defined until paragraph 8 (paragraph 6(a) does provide a summary definition in the bracketed wording). Paragraph 6(b) avoids the defined term and uses the summary wording instead.</p> <p>We recommend avoiding using the defined term in paragraph 6(a) and make the wording of that paragraph consistent with 6(b) - <i>To obtain either reasonable assurance or limited assurance, as appropriate, about whether the outcome of the measurement or evaluation of the underlying subject matter is free from material misstatement.</i></p>
7	<p>We recommend that this paragraph be deleted. The paragraph does not represent an objective and the matter is addressed in paragraph 57.</p>
8(a)	<p>The first sentence in the definition of an assurance engagement states "An engagement in which a practitioner aims to obtain ...designed to enhance the degree of confidence of the intended users <i>other than the responsible party</i> about..."</p> <p>We recognise that the wording "other than the responsible party" highlights the three party relationship in an assurance engagement, but believe the elements of an assurance engagement should not be summarized in this manner, and are explained clearly in paragraph 28 of the proposed revised framework. By summarizing in this manner, the requirement may imply that the responsible party is prohibited from being an intended user (or a member of intended users), which is not the case.</p> <p>To avoid confusion, we recommend that this wording be deleted.</p>
8(m)	<p>We recommend that this definition be deleted as it is unnecessary to define the noun of "measure" and "evaluate" in an assurance standard. However, as set out in our response to paragraph 3(b) we do recommend that the terminology "measure and evaluate" be defined in paragraph 8.</p>
8(q)	<p>The board may wish to remove the sentences described below. Removing them has the advantage of focusing the reader on the term being defined. The activities described are requirements, which are discussed in paragraph 39.</p> <p>Practitioner—The individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm) by applying assurance skills and techniques to obtain reasonable assurance or limited assurance, as appropriate, about whether the subject matter information is free from material misstatement. In a direct engagement, the practitioner both measures or evaluates the underlying subject matter against the criteria and applies assurance skills and techniques to obtain reasonable assurance or limited assurance, as appropriate, about whether the outcome of that measurement or evaluation is free from material misstatement.</p> <p>Where this ISAE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term engagement partner rather than practitioner is used.</p>
8(x)	<p>We recommend deleting the word "underlying" from the term "underlying subject matter". Including the word "underlying" is an</p>

Paragraph	Comment
19	<p>unnecessary extension of the key term.</p> <p>For clarification purposes, we recommend the following amendment to paragraph 19:</p> <p>"If, <u>during the engagement</u>, the engagement partner obtains information that would have..."</p>
20(a)	<p>We determined that it is difficult to achieve the requirement in 20(a) without carrying out the recommended actions in the application material A34 and A36. Therefore, we concluded that A34-A36 are, in fact, requirements.</p> <p>In addition, we recommend that obtaining the responsible party's acknowledgment of responsibility for the subject matter in a direct engagement should be a precondition. Similarly a precondition to an attestation engagement would be obtaining the measurer or evaluator's acknowledgment of responsibility for the subject matter information. We therefore propose the following additional requirements:</p> <p>20.</p> <p>(c) In an attestation engagement, obtain the agreement of the measurer or evaluator that it acknowledges and understands its responsibility for the measurement or evaluation of the underlying subject matter against the criteria.</p> <p>(d) In a direct engagement, obtain the agreement of the responsible party that it acknowledges and understands its responsibility for the subject matter, unless that responsibility is prescribed by laws or regulations in sufficient detail.</p> <p>We also suggest below conforming amendments to paragraphs 48 and 49.</p>
20(b)(ii)	<p>To avoid unnecessary repetition of the definition of "applicable criteria" we recommend the following revision to the requirement in this paragraph as follows:</p> <p>20(b)(ii) The applicable criteria are suitable and will be available to the intended users.</p>
20(b)(iv)	<p>We did not understand why this pre-condition is so vital to ISAE 3000 engagement acceptance when it is not required in the auditing standards (ISA 210.6).</p> <p>If the practitioner faced a situation where the engaging party requested that the practitioner's report is not written then the practitioner cannot carry out the engagement in accordance with ISAE 3000 nor claim compliance with the ISAE because the objective and requirements of the standard require a written report.</p> <p>In addition, we are unsure as to how a practitioner would demonstrate they have complied with this requirement at the 'pre-planning' phase. Is it the board's intention that this shall be verbally agreed with the appropriate parties, and a note included in the engagement file? We are unsure why this is of value to the quality of</p>

Paragraph	Comment
	<p>the engagement.</p> <p>We recommend that the board delete this requirement or alternatively include a requirement in the section "<i>Agreeing on the Terms of Engagement</i>" that the practitioner should make reference to the expected form and content of the assurance report. (See ISA 210.10(e)).</p>
23 (and A54-A55)	<p>We noted that different terms (engagement letter, confirmation, in laws and regulations and contract) are used to describe the written agreement between the practitioner and the engaging party.</p> <p>The use of multiple terms may cause confusion. We recommend using the phrase "written agreement" throughout the standard. Providing the other phrases as examples parenthetically on the initial use of the term would be helpful.</p>
25	<p>As presently written, we do not support the inclusion of the second sentence of paragraph 25 as a requirement; "If such a change is made, the practitioner shall not disregard evidence that was obtained prior to the change".</p> <p>It is a matter of professional judgement whether evidence obtained prior to change of engagement is relevant to the new engagement. As written this requirement might be interpreted by practitioners that they are required to retain evidence even if it is of no relevance to the new engagement. We recommend that the board clarify the purpose of this requirement in the application material.</p>
26	<p>It is not clear to us how a practitioner would comply with the requirements in this paragraph. In particular, what criteria would the practitioner use to judge whether the users might not understand the assurance obtained from the engagement? Would the requirements described in paragraph 60 be the criteria used to make this judgment?</p> <p>To improve clarity, the board may wish to consider an approach similar to ISA 700.43 in wording these requirements.</p>
39	<p>We recommend paragraph 39 be modified to state <i>The practitioner shall apply assurance skills and techniques to obtain reasonable assurance or limited assurance, as appropriate, about whether the subject matter information is free from material misstatement.</i></p> <p>We are unsure how a practitioner would demonstrate compliance with a requirement that the engagement shall be "iterative and systematic". In the auditing standards, the reference to "iterative" process is not required to be demonstrated but is part of the explanatory guidance supporting the objective that planning should be performed in an effective manner. (ISA 300.4 & A2). We recommend the board take a similar approach</p>
43	<p>We would appreciate more guidance regarding the accumulation of uncorrected misstatements identified during the engagement. Paragraph A99 only explains why the practitioner is required to accumulate uncorrected misstatements but not how. We recommend that the board draw on guidance in ISA 450.</p>
44	<p>We found the placement of the bracketed reference in the first sentence of paragraph 44 ("including whether it is a reasonable</p>

Paragraph	Comment
	<p>assurance or limited assurance engagement") misleading because the link between procedures, evidence and assurance is a technically complicated matter and cannot be summarized in this manner.</p> <p>Evidence is obtained from <i>procedures</i> performed during the course of the engagement. The nature, timing and extent of the <i>procedures</i> are driven by whether the practitioner needs to obtain reasonable assurance or limited assurance (among other matters set out in paragraph A94). Based on the evidence obtained the practitioner may wish to carry out additional procedures and the nature, timing and extent of those <i>additional</i> procedures will also vary depending on the nature of assurance the practitioner needs to obtain. The evidence obtained will allow the practitioner to conclude if they have achieved the level of assurance required.</p> <p>We believe that this link between procedures, evidence and assurance is more clearly explained in the paragraphs A94 to A105 and therefore recommend that the bracketed reference be deleted.</p>
48	<p>As discussed in our comments on paragraph 20(a) above, we believe that confirming acknowledgement of responsibility with the measurer/evaluator or responsible party should be a precondition for the assurance engagement. Therefore, we believe the written representations obtained towards the end of the engagement should be a confirmation that such responsibility was fulfilled. We therefore recommend the following changes be made to paragraphs 48 and 49:</p> <p>48. In an attestation engagement, the practitioner shall request from the measurer or evaluator a written representation <u>that it has fulfilled its responsibility for</u> about the measurement or evaluation of the underlying subject matter against the applicable criteria, including that all relevant matters are reflected in the subject matter information.</p> <p>49. In a direct engagement, the practitioner shall request from the responsible party a written representation that confirms acknowledgement of the acknowledges responsibility for the underlying subject matter unless that responsibility is prescribed by laws or regulations in sufficient detail.</p>
50	<p>The use of the word "material" creates confusion. Would a practitioner obtain representation for non-material items? Should not the practitioner perform both (a) and (b) for all representation obtained?</p> <p>We recommend that the requirement remove the text prior to the comma and state <i>For written representations, the practitioner shall...</i>"</p>
56	<p>We are unsure why the board has not chosen to use the terminology <i>subject matter information</i> in the first sentence of paragraph 56. It is unnecessarily repetitive to define 'subject matter information' in the requirement when it is clearly defined in paragraph 8 and also described in the application material.</p>
59	<p>The terminology 'emphasis of matter' is used in this requirement but is not defined in paragraph 8. Some assurance practitioners may not be familiar with the auditing standards, ISA 706 in particular, so we recommend that it be defined.</p>

Paragraph	Comment
60(f)	With regard to the phrase “criteria designed for a specific purpose”, we observed that the term “special purpose criteria” was used in A46. To avoid confusion, we recommend the same terminology be used throughout the document.
60(k)	As noted in the main part of our letter, we would appreciate more guidance on what constitutes "informative summary" in a limited assurance engagement. Paragraph A152 provides very little guidance to practitioners as it simply states that the summary of work would be more detailed and might include procedures that the practitioner did not carry out. If the board decides to require an informative summary, we suggest that the standard include an example report.
60(l)(i)	We did not understand this requirement and the guidance in A158 confused us further. We recommend that this requirement be clarified.
60(n)(i)	We observed a number of different terms being used for "responsible party". In particular, in 60(n)(i) "recognized authority" and in paragraph 47 "appropriate party(ies)". To avoid confusion, we recommend the same terminology "responsible party" be used throughout the document.
68	<p>We do not support the requirement to consider whether any matter that has come to the attention of the practitioner should be communicated. This requirement is an unnecessary burden on the practitioner as the practitioner, to meet this requirement, would have to demonstrate they have considered all matters that have arisen and if they do or do not need to be further communicated.</p> <p>We recommend that the requirement be written so that the practitioner is required to communicate all <i>significant</i> matters to the responsible party. Alternatively the board could draw on guidance in ISA 260.16.</p>
A9	We were confused by the use of the term <i>underlying subject matter</i> in the fifth sentence of paragraph A9: “For example, one measurer or evaluator might select the number of customer complaints resolved to the acknowledged satisfaction of the customer for the underlying subject matter of customer satisfaction...” Customer satisfaction results are the subject matter information (SMI). This SMI is attained by measuring or evaluating customer complaints, the subject matter. If this is not the case, we recommend the board clarifies this example.
A17	<p>We propose the following addition to the second sentence in paragraph A17 to clarify roles and responsibilities further:</p> <p>"...Regardless of the involvement of others however, and unlike an agreed-upon procedures engagement (which involves reporting findings based upon procedures <u>agreed with the engaging party</u>, rather than a conclusion):..."</p>
A21 and A22	<p>We found these paragraphs confusing and propose that the following two paragraphs replace A21 and A22.</p> <p>A21. This ISAE includes requirements that apply to assurance engagements (other than audits or reviews of historical financial information), including assurance engagements in which a subject matter-specific ISAE is in effect.</p>

Paragraph	Comment
	<p>A22. The ISAs and ISREs have been written specifically for audits and reviews of historical financial information respectively. They may, however, provide guidance in relation to the assurance process for practitioners undertaking an assurance engagement in accordance with this ISAE.</p>
<p>A43</p>	<p>We believe it would be helpful for practitioners if the board included specific examples to support this guidance.</p>
<p>A46</p>	<p>We consider the guidance in A46(a) and (b) to be conditional requirements because they supervene a factual statement ("in such cases, the assurance report") that is not supported in the requirements. In particular, paragraph 60, which sets out the requirements for the assurance report, does not include A46(a) and (b) as requirements. A144 makes the same point in A46(a) but it is written as an example.</p> <p>If the intention of the board is to require A46(a) and (b) in the assurance report when the circumstances exist, we recommend that paragraph 60 be expanded accordingly. Alternatively, the guidance should be written not as a factual statement but as an example.</p>
<p>A93</p>	<p>We recommend the following edit to paragraph A93:</p> <p>"The practitioner ordinarily...The practitioner also ordinarily has <u>needs</u> a lesser depth of understanding for a limited assurance engagement...internal control over the preparation of the subject matter information, this is often not the case <u>necessary</u>."</p>
<p>A126</p>	<p>We recommend that the guidance in the second bullet point of paragraph A126 be expanded by the inclusion of an example where this particular situation might arise.</p>
<p>A128</p>	<p>With regard to the terminology at the end of paragraph A128 "...or take other action as appropriate in the circumstances", we recommend that the guidance should be expanded further to explain what those circumstances might be. This guidance can be drawn from ISA 560.</p>
<p>A133</p>	<p>The last bullet of paragraph A133 refers to analytical procedures performed at the end of the engagement. Although this is an example, it may be interpreted by some users that final analytical procedures are required on all ISAE 3000 assurance engagements, which is not the case. We therefore recommend the following alternative wording:</p> <p>A133... If analytical procedures were performed towards the end of the engagement, they may indicate a previously unrecognized risk of material misstatement.</p>
<p>A175</p>	<p>This application material appears to be a conditional requirement; i.e. if a circumstance exists (necessary to amend existing documentation), then an action should be taken (the documentation includes...). We recommend that the board either reword the guidance as an example of what might be included in the documentation when the circumstance exists, or include it as a conditional requirement to paragraph 69 and 70.</p>
<p>Appendix</p>	<p>We believe that the diagram in the appendix might be confusing for the following reasons:</p> <ul style="list-style-type: none"> - the guidance supporting the diagram is long, partly because

Paragraph	Comment
	<p>the guidance is needed to explain the application of the diagram to both direct and attest engagements.</p> <ul style="list-style-type: none"> - use of the phrase “underlying subject matter” - the title "assure" is not defined, and is not connected to the intended users or the assurance report. - it is not clear how the diagram illustrates many of the bulleted points included in the guidance. <p>We therefore recommend that the board reconsider the diagram.</p>