



National Audit Office

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Dear James,

EXPOSURE DRAFT ISAE 3000

The UK National Audit Office is pleased to comment on the exposure draft of ISAE 3000. The NAO carries out the external audit of all UK central government entities on behalf of the Comptroller and Auditor General. Our work includes a large number of attest and direct assurance engagements which would potentially be subject to this revised standard.

In our view the changes to the standard, particularly the introduction of clearer guidance on direct engagements, has the potential to be of great use to the UK NAO and to the wider Supreme Audit Institution community. We see that the standard could apply to much of our value for money/performance audit work, as well as to a number of other direct and attest engagements. However we note that the SAI community, and the mandates we operate under are diverse, and there will be many jurisdictions where the standard will not be relevant. Notwithstanding this issue, we see that even in those jurisdictions the standard provides helpful overarching guidance to SAIs in carrying out their assurance work.

We are therefore strongly supportive of the revisions to the proposed standard.

I attached, annexed to this letter, replies to the specific questions asked in the consultation.

Yours sincerely,

ANDREW D BAIGENT
Director General Financial Audit



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

UK National Audit Office response to consultation questions

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. We see the proposed ISAE is a good basis for ensuring consistent high quality assurance engagements. We see that as it is principles-based, it should give enough flexibility to explicitly cover most of the performance (value for money) audits and other assurance engagements that we perform. There will be some cases where the work we perform under our statutory mandate is not capable of complying with the ISAE, nonetheless the principles within it will remain helpful guidance.

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.

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

Yes

At the NAO we primarily perform reasonable assurance rather than limited assurance work. In our view, limited assurance engagements do not in the majority of cases provide useful information to general users although we accept that there is a demand in the market-place for limited assurance engagements and that they can be of use to an expert stakeholder/user.

(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 can see the benefits of obtaining this understanding for attest engagements, but it may not be relevant for all limited assurance engagements, depending on what level of work is planned

For Direct engagements, where the assurer prepares the SMI, this is not a relevant consideration.

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”?

Yes.

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

Yes, but we acknowledge that practitioners who are not familiar with the wide scope of direct assurance engagements may see the definitions of direct engagements as complex and unclear. Use of examples of direct engagements, with an explanation of the various roles of the assurer, responsible party and others may be a useful addition to the application material or in other explanatory material.

(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 acknowledge that the concept of misstatement is not always clear with regards to these types of engagement where the practitioners conclusion is the SMI. The main issue is the amalgamation of the risk of mis-measurement/evaluation with the risk of assurer error. However we feel that notwithstanding this confusion, the concept of misstatement as an error in the SMI is understandable. The presentation of this concept could be made clearer in the text.

(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?

Yes.

Provided the applicable criteria are clearly presented and available to the user, then the guidance is sufficient.

We believe some examples of criteria and how they are arrived at is contained in the application notes or other explanatory material.

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 this is fundamental. Given the nature of assurance work, particularly where the practitioner is providing 'reasonable assurance', it is essential that the user has a clear understanding of the robustness of the evidence base that provides the basis of the assurance given. This includes an understanding of the scope of the engagement, the application criteria and the rationale for their selection, and the methodology applied.

(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, although the text of the proposed ISAE could be clearer in this regard. Care also need to be taken to differentiate between a qualified/modified reasonable assurance opinion and a limited assurance opinion, and the text could be modified to accommodate this circumstance.

(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?

No comment.

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?

Yes.

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. We very much welcome the IAASB's conclusion (as articulated on page 10 of the explanatory notes) that the proposed ISAE 3000 should be written to include application by practitioners other than professional accountants in public practice. This will include supreme audit institutions as well as other practitioners working in the UK public sector. Our organisation includes a number of assurance professionals drawn from a range a disciplines, and only a proportion of these are professional accountants (this includes those staff responsible for the issuing of the assurance conclusion).

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

Yes

Comments on Other Matters

The IAASB is also interested in comments on matters set out below.

▫ ***Public Sector***—Recognizing the applicability of proposed ISAE 3000 to many assurance engagements in the public sector, the IAASB invites respondents from this sector to comment on the proposed ISAE, in particular on whether, in their opinion, the special considerations in the public sector environment have been dealt with appropriately in the proposed ISAE.

We firmly believe that the standard will be of great use to Supreme Audit Institutions in providing a framework and/or standards for a wide range of their work. This will include, but not be limited to other assurance engagements, some performance/Value for Money audit work. Most of the 'assurance engagements other than audits or reviews of historical financial information' carried out by UK public audit bodies are 'direct engagements' that seek to provide 'reasonable assurance'.

▫ ***Small-and Medium-Sized Practices (SMPs) and Small-and Medium-Sized Entities (SMEs)***—Recognizing the applicability of proposed ISAE 3000 to assurance engagements on historical financial information in a SME context or by SMPs, the IAASB invites respondents from this constituency to comment on the proposed ISAE, in particular on the scalability of requirements.

No comment.

▫ ***Developing Nations***—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposed ISAE, in particular, on any foreseeable difficulties in applying it in a developing nation environment.

No comment.

▫ ***Translations***—Recognizing that many respondents may intend to translate the final ISAE for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed ISAE.

No comment

▫ ***Effective Date***—The IAASB believes that an appropriate effective date for the final ISAE 3000 would be 12-15 months after approval of the final standard but with earlier application permitted. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the ISAE.

Yes. From the perspective of the NAO, given that many of our processes already accord with the principles underpinning the proposed ISAE, the proposed timetable is quite reasonable.