

29 August 2011

Mr James Gunn  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, 10017  
USA

Dear James,

**IAASB Exposure Draft, ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of historical Financial Information and Proposed Consequential Amendments**

Thank you for the opportunity to comment on this Exposure Draft.

We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) in the attachment.

We have also provided, as a separate attachment, a summary and examples of reports on some assurance engagements being undertaken in New Zealand in accordance with ISAE (NZ) 3000. These examples have been provided solely for your information, and we ask that you please treat them as confidential.

Should you have any queries concerning our submission please contact Misha Pieters ([misha.pieters@xrb.govt.nz](mailto:misha.pieters@xrb.govt.nz)).

Yours sincerely,



**Neil Cherry**

**Chairman – New Zealand Auditing and Assurance Standards Board**

Email: [neil.cherry@xrb.govt.nz](mailto:neil.cherry@xrb.govt.nz)

## Submission of the New Zealand Auditing and Assurance Standards Board

### Exposure Draft ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and Proposed Consequential Amendments

#### I Schedule of Responses to the IAASB's Specific 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?

**Response:**

The proposed standard is difficult to read and understand. The NZAuASB believes that proposed ISAE 3000 could be enhanced by simplifying the language to enhance the readability of the standard. We strongly recommend adding additional examples, flowcharts and illustrations to facilitate a better understanding by the practitioner when applying the standard.

Extant ISAE 3000 has been adopted in New Zealand, but the scope of the standard has posed practical challenges and practitioners have struggled to determine when this standard applies. We believe that additional examples and less technical language would enhance the understanding of the scope and the requirements of the standard, which would better enable consistent high quality assurance 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?

**Response:**

In New Zealand there is a lack of understanding, for both users and practitioners, of the differences between reasonable and limited assurance engagements. The NZAuASB therefore supports steps taken to explain the differences between reasonable and limited assurance engagements, and specifically supports the following paragraphs:

- A9 which explicitly states that the suitability of criteria is not affected by the level of assurance;
- A38 which explicitly states that the appropriateness of the underlying subject matter is not affected by the level of assurance; and
- A84 which explicitly states that materiality is not affected by the level of assurance.

However, the NZAuASB believes that proposed ISAE 3000 still does not adequately explain the differences between the two types of engagements. We believe that further emphasis and clarification should be provided in terms of the different levels of work effort required in the different assurance engagements, if this is to be the key distinguishing feature. However, some caution needs to be exercised when emphasising that the key difference between reasonable assurance engagements and limited assurance engagements is based on the set of procedures performed.

Assurance (or a level of assurance provided) is not the same as the work effort. In general terms even reasonable assurance standards do not dictate what the appropriate level of assurance on an individual audit is. This is because the level of assurance is idiosyncratic to a particular engagement. Secondly, the actual level of assurance on an assurance engagement is generally unobservable. Our suggestion would be to emphasise in the standard( the explanations of varying levels of assurance) the interaction between

the subject matter, criteria and the nature, timing and extent of audit procedures performed that lead to any given level of assurance.

To enhance the explanation of the difference between these engagements, we recommend adding a flowchart illustrating the work effort, distinguishing the differences in planning, delivery and reporting, linked to the level of assurance. Examples of typical procedures should also be included.

In addition using a table format in the proposed standard to clearly highlight the differences in procedures as used in Proposed ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements* could help to provide further clarity.

We acknowledge that it is not appropriate to mandate specific procedures in ISAE 3000 (Revised) as it applies to a broad range of engagements. However, we believe that providing examples in the explanatory material of the procedures performed in a limited assurance engagement or examples of how key elements of the engagements differ in practice would be helpful in promoting consistency, and aid in understanding the difference between the different levels of assurance.

Without sufficient guidance on this topic (i.e. what procedures are considered appropriate), practitioners may tend to do excessive amounts of work in order to protect themselves, or alternatively there may be a reduced use of limited assurance engagements. This is particularly true in light of the guidance provided in paragraph A53:

*A53 In the case of a limited assurance engagement, whether the engagement circumstances are such that performing procedures that are limited relative to a reasonable assurance engagement will result in the practitioner obtaining a level of assurance that is meaningful to the intended users. For example, in some cases the inherent risks associated with measuring or evaluating the underlying subject matter in accordance with the applicable criteria may be so high that the work effort associated with a reasonable assurance engagement is needed for the practitioner to obtain a level of assurance that is meaningful to the intended users. (See also paragraphs A2).*

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

**Response:**

Yes, we have not identified any requirements or other material that is not appropriate to both reasonable and limited assurance engagements (with reference to our points in 2(a)).

We believe that there is insufficient material to assist the practitioner in identifying areas where material misstatements are likely to arise and that the proposed ISAE 3000 could be improved by adding further guidance in this regard for both limited and reasonable assurance engagements.

**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?**

**Response:**

We believe that there should be a requirement for the practitioner to obtain at least a high level understanding of internal controls over the preparation of the subject matter information when appropriate. We believe that this is necessary for the practitioner to be able to consider areas where material misstatements are likely to arise as required by paragraph 42.

Over and above this, we would recommend that paragraph 42 should be made more specific and clearer, explicitly requiring, under a limited assurance engagement, that a risk assessment be performed in order to determine where material misstatements are likely to arise. This would be consistent with ED ISAE 3410.

**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”?**

**Response:**

Yes, we agree.

- b. Does proposed ISAE 3000 properly define, and explain the difference between, direct engagements and attestation engagements?**

**Response:**

The NZAuASB supports the steps taken to properly define direct and attestation engagements.

We agree that the key distinguishing feature between direct engagements and attestation engagements is who evaluates or measures the subject matter. We recommend that the additional wording concerning presentation of the information be deleted from the definition, as this confuses rather than adds to the distinction.

Specifically:

**8(a)(ii)(a)**

~~Attestation engagement—An assurance engagement in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. A party other than the practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the practitioner in the assurance report.~~

~~Direct engagement—An assurance engagement in which the practitioner measures or evaluates the underlying subject matter against the criteria and the practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report.~~

We recommend that additional material should be added to explain the differences between attestation and direct engagements. We find the addition of paragraph A6 helpful. Using an example such as the greenhouse gas statement helps to clarify and therefore adds to this explanation. We recommend the use of further examples and also suggest adding a diagram in the appendix to visually illustrate the difference between the engagements and include some examples of attestation and direct engagements.

We also recommend that simplifying the language where possible would enhance the understanding of the standard, for example considering the terms and distinction between “underlying subject matter” and “subject matter information” which we still believe are confusing. Providing examples, as suggested above, may be the simplest way of clearly illustrating the distinction.

- 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))?**

**Response:**

Yes, we believe the objective is appropriate. In a direct engagement, a misstatement that arises from the practitioner's measurement or evaluation cannot be distinguished from the failure of the practitioner to detect this misstatement. We consider the IAASB may want to clarify the application of the definition of a misstatement to clearly illustrate its application to direct engagements.

- 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?**

**Response:**

Paragraph A10 provides guidance where the practitioner has selected or developed the applicable criteria. We believe that it should be a requirement, where the practitioner has done so, 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. We have not identified any circumstance where this is not appropriate.

- 4) **With respect to describing the practitioner's procedures in the assurance report:**

- i. **Is the requirement to include a summary of the work performed as the basis for the practitioner's conclusion appropriate?**

**Response:**

We agree that in the case of a limited assurance engagement, this summary could be an essential part to understanding the assurance conveyed by the practitioner's conclusion given that understanding the work effort is key to understanding the level of assurance. However, we consider the work effort should be linked to the risks identified. Higher risk engagements should require more extensive procedures to be conducted to obtain the same level of assurance as a lower risk assessment. Without the context of the risk assessment users may misinterpret more extensive procedures as providing a higher level of assurance.

We also query whether it may be more useful for the limited assurance report to identify, in summary, the procedures not undertaken in a limited assurance engagement.

It is not clear from the current wording of paragraph 60(k) if the requirement to provide an informative summary of the work performed applies to reasonable assurance engagements and recommend that this should be clarified in the requirement rather than through the application material.

- ii. **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?**

**Response:**

We understand that this has been added to mitigate the risk of misunderstanding the level of assurance that is conveyed by the opinion and for this reason agree that the requirement is appropriate. As noted above, we recommend that it may then be more appropriate for the limited assurance report to identify in summary, the procedures not undertaken.

- iii. **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?**

**Response:**

Yes, if the summary of work performed is retained, we believe that there is a need for further guidance around how to interpret the level of detail needed in the summary of procedures as it is open to a wide range of interpretation. We believe that it would be helpful and promote consistency to provide some examples or guidelines, to be applied where relevant. The report should stress that the procedures performed were responsive to areas where material misstatements are likely to arise in a limited assurance engagement.

- 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?**

**Response:**

We agree that the negative form of opinion is the only significant distinguishing feature between a limited assurance engagement and a reasonable assurance engagement. We therefore support the negative form of opinion as it aids in this distinction and users and practitioners are relatively familiar with this form of conclusion.

**6. With respect to those applying the standard:**

- i. **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?**

**Response:**

Yes, we believe the public interest is better served if all competent assurance practitioners were able to use ISAE 3000. In New Zealand, the External Reporting Board now sets the auditing and assurance standards which have to be applied by all auditors of issuers. However, our standards may be applied by any assurance provider even if there is no statutory requirement to do so.

- ii. **Do respondents agree with proposed definition of “practitioner”?**

The NZAuASB would recommend that the term “assurance practitioner” would be more appropriate than “practitioner”. In addition, we would recommend adding “assurance” in front of engagement as the standard is specific to assurance engagements. Also, given that the standard may be used by non-accountants, the definition should include reference to exercising professional judgement.

The definition contain material specific to a direct engagement which we believe is not appropriate for the definition paragraph and should be deleted from the definition or moved elsewhere if necessary, “...~~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.~~”

## **II Comments on Other Matters**

***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.

**Response:**

We have not identified any specific issues applicable to the public sector which need to be dealt with separately.

***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.

**Response:**

We have not identified any specific issues applicable to SMPs which need to be dealt with separately.

***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.*

**Response:**

Yes, we believe that this is sufficient.

## **III Other Comments**

### **Historical financial information**

We note that the IAASB has discussed the practical difficulties in determining whether some engagements should be performed in accordance with ISAE 3000 or ISA 805, “*Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*”. We agree that it may be impossible to articulate a “brightline” distinction that would always be applicable but some guidance, examples or acknowledgement that the reporting and other essential elements of the engagement under the two standards are consistent in this respect would be useful as this is an area of practical difficulty.

## **IV Comments on Minor Editorial Matters**

- a) Format all footnotes consistently with a full stop at the end of each one.
- b) Recommend removing ‘(or resign)’ from paragraph 7. This is not used consistently, for example in paragraph 15, and does not add to the requirement.
- c) Recommend rewording the definition of assurance engagement to avoid use of the word ‘aim’.
- d) Heading of paragraph 12 – we recommend that this should be “Understanding of an ISAE”.
- e) Careful to distinguish between “practitioner” and “engagement partner” in paragraph 18 and 20.
- f) Add a comma after “In a reasonable assurance engagement,” in paragraph 41.
- g) Add a full stop after “intended users.” In paragraph A2.

- h) Add “without limiting” to paragraph A2 second bullet as follows, “may stipulate without limiting particular procedures...”
- i) Correct comma and spacing in paragraph A4 (a).
- j) Recommend starting paragraph A5 with “In a direct engagement” as done in A3-A6.
- k) Paragraph A23 refers to ISQC which should be ISAE.