



Québec City, August 11, 2011

Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14th Floor  
New York, New York 10017 USA

**Subject: ED ISAE 3000 – Assurance Engagements Other Than Audits or Reviews of  
Historical Financial Information**

Dear Sir/Madam:

I am pleased to send you, attached, the comments of the Auditor General of Québec on the above-mentioned document.

Yours truly,

A handwritten signature in black ink, which appears to read "Renaud Lachance". The signature is fluid and cursive, written in a professional style.

Renaud Lachance, FCA  
Auditor General of Québec

Encl.

c.c. Greg Shields, CA, Director, Auditing and Assurance Standards, CICA

PROPOSED INTERNATIONAL STANDARD ON ASSURANCE ENGAGEMENTS (ISAE)

ISAE 3000 – ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OR  
REVIEWS OF HISTORICAL FINANCIAL INFORMATION

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?

ISAE 3000 constitutes a stand-alone and well-integrated package that can be suitable for various users. In particular, we note the concise and precise integration of requirements relating to planning, the use of experts and documentation.

Quality control also strikes us as well defined, particularly as far as the practitioner's responsibilities are concerned (paragraphs 29 to 31).

However, due to several significant reservations concerning the definition of misstatement, the acceptance and continuance of the engagement and the matter of taking the reality of the public sector into account, we invite the IAASB to make the necessary changes so we can recommend the adoption of this standard by the CICA.

Our reservations are presented in response to each of the questions, where relevant.

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?

No. In our opinion, the concept of plausibility should not be abandoned because it was useful, in practice, for differentiating between degrees of assurance. A limited assurance engagement cannot be merely "relatively less certain" than a reasonable assurance engagement. It must answer to a degree of quality that is specific and comparable from one engagement to another. Similarly, we cannot ask the practitioner to arbitrarily establish, based on his perception of users' needs, the amount of work required in order to consider that there is a reasonable or a limited degree of assurance. Clearer standards would be needed, and the concept of plausibility would be helpful.

- (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?

We have no specific comment on this issue.

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?

In general, yes, except the relevant comments in 3(c).

- (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))?

No.

The concept of misstatement, as presented throughout the ISAE 3000 standard, is not appropriate to the situation where the practitioner himself evaluates the subject matter information, that is, in a direct engagement (value for money audit). In a direct engagement, the concept of misstatement cannot apply because the auditor is seeking to measure the variation between the observations arising from the application of his audit processes and his expectations, illustrated by the criteria selected. The concept of misstatement refers, instead, to the fact that the audit risk for the practitioner (failure of the engagement) has come to pass, which is not what we are after here. Contrary to an attestation engagement, in which the practitioner verifies an assertion made by and published by management, in a direct engagement the practitioner produces the report and the associated information. Thus there cannot be any question of misstatement as it is defined.

Furthermore, in a direct engagement, the user of the report could never, or only exceptionally, detect an error on the part of the practitioner (in this

respect, this would constitute a failure of the engagement). Consequently, it is conceptually impossible to accumulate these errors (see paragraph 43).

In our view, ISAE 3000 should address this question more precisely, by clearly specifying in the objective (6 (b)) that the measurement is made by the practitioner. The definition of misstatement should also be adjusted to include specific phrases to the effect that misstatement in a direct engagement means that the underlying subject matter information is non-compliant with the applicable criterion(a). **It might also be appropriate to consider using a term other than “misstatement” for direct engagements, such as “deviation from criteria”, to promote even more clarity in this concept in a direct engagement context.**

At the same time, the concept of risk in connection with misstatements cannot be dealt with in the same way as for financial attestation engagements or other forms of attestation (e.g. certification of internal controls). The auditor would have to evaluate the risk of his making measurement errors, whereas the auditor’s goal is to provide this measurement to the users of the report (see paragraphs 8(v) and A7).

- (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.

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. The inclusion of an informative summary of the work performed as the basis for the practitioner’s conclusion in the report will generally help to provide a better understanding of the value of the information contained in the reports, in relation to the work carried out. However, these requirements should not have the effect of disclosing the practitioner’s audit strategies.

- (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?

No.

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, considering the inclusion of the content of question 4(b) above.

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. In our opinion, ISAE 3000 provides sufficient requirements in this respect.

- (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.

Some important reservations deserve to be brought to your attention. In fact, the realities of the public sector receive scant consideration, and many subject matters are likely to generate pointless work or to be interpreted in an ambiguous fashion. The credibility of this standard for legislative auditors risks being weakened, in particular due to the following:

- **Written representation:** When the auditor carries out a direct engagement, he must validate, at the beginning of the engagement and not at the end (see paragraph 51), management's responsibilities relating to the subject matter in question. The quality and effectiveness of the engagement depend upon it. We suggest to the IAASB to include this consideration in paragraph 51, to reflect the reality that the practitioner validates his understanding of management's responsibilities at the end of the

planning phase, and that the other declarations are obtained as the work progresses or on a date as close as possible to the date of the report, but not later.

- **Acceptance and continuance:** The concepts discussed are not relevant to the public sector. Legislative auditors' reality is such that they themselves choose both the engagements and their scope, within the field of expertise decreed by the legislator. Legislative auditors must simply announce the engagements according to the responsibilities identified, and validate their understanding of them (see the point on written representation). The normative considerations regarding acceptance and continuance are all the more inappropriate in that they are included in several sections (in particular 29(a), A80)). In this section, we also note the inapplicability of several considerations relating to preconditions for the assurance engagement. In the public sector practice, the absence of some of these preconditions can, on the contrary, strongly induce the legislative auditor or parliament (through a special assignment) to undertake a direct engagement (see 20(a), 20(b) (i), (iii), (v)). In these circumstances, it could be appropriate and even crucial to undertake an engagement in the public sector, given parliamentarians' interest in value for money audits, which are used to identify management problems. In short, due to the legal context and to the fact that parliamentarians, not management, are the clients of the direct engagement report, the preconditions proposed in the draft standard are not only irrelevant in many respects, but they are likely to create many ambiguities.

#### *Conceptual framework*

Given the absence of a conceptual framework in Canada, it would be appropriate to include Schedule 5 of the International Framework for Assurance Engagements in the ISAE 3000 standard. This adjustment would promote a better understanding of what a direct engagement is (in this case, the resource optimization audit) by positioning it more precisely compared to the other certification products covered by ISAE 3000.

- *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.

We have no specific comment on this issue.

- *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.

We have no specific comment on this issue.

- *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.

We would be interested in having a standard in French.

- *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.

We favour an application date between 15 and 24 months after the approval of the standard, so we can adjust our work tools and provide appropriate training to our staff.

- *Other considerations*

*Date of the report and work period*

Besides the date of the report, an auditor's report of a direct engagement must specify the period of time covered by the work, as this information puts the practitioner's findings into context, especially if the auditor has audited files during his engagement, such as calls for tenders or grant files.