



August 31, 2011

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

**Re: April 2011 Exposure Draft (ED) of a Proposed IAASB International Standard on Assurance Engagements (ISAE), ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (the “Proposed Standard”)**

Dear Mr. Gunn:

The Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) is pleased to comment on the above-referenced exposure draft (the “ED”). We support the efforts of the International Auditing and Assurance Standards Board in developing standards for assurance engagements. However, as more fully explained herein, we believe that the ED contains several significant issues that need to be addressed prior to the issuance of a final revised ISAE 3000.

**GENERAL COMMENTS**

*Concept of “direct engagements”*

We are concerned that the ED leaves a number of unanswered questions about direct engagements. We struggle with the concept of the practitioner as measurer and evaluator in direct engagements and do not believe that this concept will be accepted in the United States. The ASB does not intend to address direct engagements when clarifying, and considering convergence with ISAE 3000 of, its standard that addresses assurance engagements other than audits or reviews of historical financial information.

We believe that ISAE 3000 should address only attestation engagements and that a separate ISAE should be developed to address direct engagements. Given that there appear to be limited examples of actual direct engagements occurring in practice today, we are concerned that embedding the terminology and concepts related to direct engagements into the proposed standard may inflate the size of the proposed standard unnecessarily. As a result, it may be more difficult for users of the proposed standard to understand the

requirements and guidance related to attestation engagements, which are much more common engagements by comparison. We therefore believe it would be clearer to have a separate standard covering requirements and guidance for direct engagements.

If the concept of direct engagements is retained in the proposed standard extensive application material will be needed to enable practitioners to implement this proposed standard effectively. For example, providing examples of practice situations where the direct reporting option would be used would be helpful, as would be including comprehensive illustrative reports.

The application material in the ED provides more technical detail regarding the requirements section of the proposed standard without providing more clarification or illustrations. For example, paragraph 8(a)(ii)b defines direct engagements. Paragraphs A4-A6 in the application material expand the definition with more detail without really achieving better clarity.

#### *Implementation of Clarity Conventions*

The standard contains many more adverbs (such as “sufficiently” and “appropriately”) modifying auditor actions in the requirements than do other clarified standards issued by the IAASB. Guidance on the meaning of these adverbs is not always provided in the application material. Such use of language does not make the standard easy to understand or apply.

### **RESPONSE TO REQUEST FOR SPECIFIC COMMENTS**

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?*

The procedures outlined in the ED were well presented. However, as noted above, the clarity of the proposed standard and its implementation in practice, as it relates to attestation engagements, would be enhanced with the addition of illustrative reports and the placement of the requirements and guidance related to direct engagements in a separate standard.

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. We believe the definitions section of the ED (paragraph 8[a][i]) should be revised to more clearly describe the differences between reasonable assurance and limited assurance engagements. The definition of a reasonable assurance engagement should, consistent with the definition in the Glossary, state that reasonable assurance is a high, but not absolute, level of assurance.

We are troubled by the expression of the level of assurance in terms of the intended user. The practitioner obtains assurance in order to express a conclusion; to do that, the practitioner determines the nature, extent and timing of the procedures to be performed. By stating the level of assurance to be obtained in terms of the assurance an intended user will infer, the practitioner is placed in the position of having to anticipate user needs.

We find the phrase “a level of assurance that is, in the practitioner’s professional judgment, meaningful to the intended users” to be unclear. The Explanatory Memorandum notes that this is intended to indicate a threshold level of assurance for limited assurance engagements. We suggest adding the concept of sufficiency to better convey this threshold; then, the parameters of assurance obtained can be classified as *absolute*, *high*, and *sufficient*. Reasonable assurance is “high, but not absolute”. “High” could be defined as “the maximum assurance that can be reasonably achieved within economic limits of the assurance process”. Limited assurance is “less than high but sufficient to be meaningful”. Limited assurance is commonly referred to as a “moderate level of assurance” which may be helpful to note in the proposed standard.

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

We believe that the responsibilities for reasonable assurance engagements are appropriate. However, additional application material is needed to clarify the accountant’s responsibilities with respect to limited assurance engagements. The ED gives the impression that the practitioner is required to *identify the procedures* that would be meaningful to the intended users even though the requirement is to *obtain a level of assurance* that is meaningful to the intended users. This impression is strengthened by the requirement to describe the procedures in the report. Without further guidance, this provision of the ED could lead to considerable variations in practice which may not be in the public interest.

- (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?*

No. An understanding of internal control over the preparation of the subject matter information is necessary only for a reasonable assurance engagement in which the practitioner needs to obtain a high level of assurance.

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 have no objection to the proposed terminology changes.

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

As noted above in our General Comments, we believe it would be preferable to place the requirements and guidance related to direct engagements in a separate standard. However, if direct engagements and attestation engagements continue to be contained in the same standard, at a minimum, more application material is needed to clarify direct engagements. As written, we do not understand how the accountant could be involved in a direct engagement and not impair his or her independence. The discussion on page 8 of the ED (Item c[i]) acknowledges that the practitioner is not independent with respect to the subject matter information because the practitioner created it.

The IAASB sees the value of the direct engagement in the practitioner’s independence from the underlying subject matter, the engaging party, intended users and the responsible party. Effectively, however, the practitioner would be attesting, in part, to his or her own work. We note that the ED is consistent with the guidance in the IESBA Code of Ethics for Professional Accountants (Section 291.12-.20) but believes further guidance should be provided to explain the rationale for this approach in the context of attest engagements.

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

We believe that illustrative reports, especially for direct engagements, are necessary.

*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))?*

The IAASB acknowledges that, in a direct engagement, a misstatement that arises from the practitioner's measurement or evaluation cannot be distinguished from the failure by the practitioner to detect this misstatement. However, from a reader's perspective, the subject matter information conveyed is nevertheless misstated. The IAASB concluded that the definition of "misstatement" is appropriate for both types of assurance engagements since from a reader's perspective all that matters is that the subject matter information conveyed is misstated.

However, unlike in an attestation engagement where the practitioner has become aware of misstatements, we cannot envision the circumstances in which a reader would be informed through the practitioner's report of a material misstatement in a direct engagement, when the subject matter information is the practitioner's conclusion. A reader is only informed of known and uncorrected material misstatements. In a direct engagement where the practitioner is the measurer, the practitioner would correct any known material misstatements, so there would never be known and uncorrected material misstatements that would result in a qualified conclusion.

Not discussed in the proposed standard is the distinction that exists between a material misstatement and a negative conclusion on subject matter information, and we are concerned that practitioners will not understand this distinction. Suppose that an example of a direct engagement is an engagement to report on compliance with laws and regulations. The underlying subject matter is the entity's actions related to compliance with laws and regulations. The subject matter information is the conclusion that results from applying the criteria (how compliance is measured) to the underlying subject matter (relevant entity actions). The conclusion may be that the entity is not in compliance, but the conclusion would only be misstated if the opposite were true; that is, if the practitioner concluded that the entity is not in compliance when in fact the entity is in compliance. The conclusion that the entity is not in compliance is not in itself a misstatement.

An example of reporting a negative but unqualified conclusion on subject matter information would be helpful.

Examples for a direct reporting engagement of circumstances that would lead to a modified conclusion, as well as an illustrative report of a modified conclusion, are also needed.

*(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, more application material is needed. The procedures outlined in paragraphs A10 and A68 of the ED do not seem sufficient to address the risk of potential misstatement that would exist if the criteria developed are not suitable to the subject matter. At a minimum, more guidance is needed with respect to the knowledge and skills that the practitioner would need to possess if he or she is selecting or developing the criteria. Although paragraph A68 attempts to address the threats to objectivity that the development of the criteria would pose, as well as potential safeguards, we are unable to evaluate whether such guidance was sufficient. It's not enough to say that professional judgment is required, as stated in paragraph A75.

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 are concerned that the summary of procedures to be included in a limited assurance report will result in practitioners including details of procedures performed that may inappropriately cause report users to infer greater comfort from a limited assurance report than they might from a reasonable assurance report, particularly with respect to reports detailing procedures at specific locations. Likewise, it is probable that there will be differences in the extent of procedures listed in two limited assurance reports on the same type of assurance engagement (as a result of each practitioner's judgment as to what should be included), which may also cause readers to infer greater comfort from the longer list when, in reality, both practitioners may have performed the same extent of procedures. Furthermore, we do not believe that limited assurance engagements should provide varying levels of assurance. While we agree that the level of assurance the practitioner can obtain varies depending on the procedures performed, we believe that the level of assurance should be described only as either reasonable (that is, high but not absolute) or limited (that is, less than high but sufficient to be meaningful). Accordingly, we believe that the illustration for a limited assurance report should include a standardized work description.

*(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 believe that the requirement that the assurance report should include a statement that identifies the limitations of the limited assurance engagement is not only appropriate but necessary.

*(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?*

As noted in (a) above, we believe that a standardized work description is appropriate. Should that not be included in the proposed standard, we agree that further guidance and illustrative examples of the level of detail needed for the summary of the practitioner's procedures would be helpful. We are concerned that the lack of such guidance will lead to considerable variations in practice which may not be in the public interest.

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. This is similar to what practitioners do now.

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?*

We would prefer that this standard apply only to professional accountants in public practice. However, it is a reality that other practitioners will use the standard. So we are pleased that the proposed standard requires such practitioners to comply with (1) the IESBA Code or (2) other professional ethics requirements or ethics requirements in laws or regulations that are at least as demanding as the IESBA Code, and to so state in the report. We are not aware of any other professional ethics requirements at this time that would meet such criteria. However, we recommend that such other

assurance providers be required to specifically identify in the assurance reports such other requirements and include an affirmative statement that such other requirements are at least as demanding as the IESBA Code.

Likewise, we recommend that such other assurance providers be required to specifically identify in the assurance reports the other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 1.

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

No. The definition is different from the definition of the same term as used in the ISAs and ISREs. We also question the inclusion of the description of the practitioner’s actions in a direct engagement, as it appears to embed the definition of a direct engagement within the definition of a practitioner. If the intent is to convey that the practitioner, in a direct engagement, is also the measurer or evaluator, we suggest revising the definition to delete the second sentence in paragraph 8(q) and insert the following:

“In a direct engagement, the practitioner is also the measurer or evaluator.”

However, our preference is to delete any reference to a direct engagement from the definition of practitioner. Inclusion of this concept in the definition of practitioner gives undue emphasis to direct engagements, while the majority of engagements performed under this standard are attestation engagements.

## **OTHER COMMENTS ON ISAE 3000**

### Paragraph level comments

Paragraph 7 - We question why paragraph 7 is in the objectives section. Paragraph 7 states that when a qualified conclusion is insufficient in the circumstances, the ISAEs require that the practitioner disclaim or withdraw. This exact requirement is not found in the proposed standard. Paragraph 57 contains the requirement to express a qualified conclusion, disclaim or withdraw, *as appropriate*, when the practitioner is unable to obtain sufficient appropriate evidence. No guidance is provided with either paragraph 7 or paragraph 56 regarding how to determine which response (qualified opinion, disclaimer or withdrawal) is appropriate.

ISA 210, *Agreeing the Terms of Audit Engagements*,<sup>1</sup> requires that if management imposes a scope limitation that will lead to a disclaimer of opinion, the auditor should either not accept the engagement, unless required by law or regulation to do so. This ISAE should contain a comparable requirement.

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<sup>1</sup> ISA 210, *Agreeing the Terms of Audit Engagements*, paragraph 7



Paragraph 18 – We question the need for the forward reference in paragraph 18 to paragraphs 20-21; this could be eliminated by putting paragraph 20-22 before paragraph 18 (that is, 20, 21, 22, 18, 19). We note that much of paragraph 18 is duplicative; 18 (a) with 28(a)(i); (b) with paragraph 28(a); (c)(i) with 20-21; (c)(ii) with paragraph 23. If the practitioner has met the requirement of paragraph 18(b), what else is to be done to meet the requirement in paragraph 28? Perhaps a backward reference to paragraph 18(b) can be used in paragraph 28 instead of the requirement, or additional guidance explaining how the two requirements differ.

Paragraph 31 - To be consistent with paragraph 23 of ISA 220, *Quality Control for an Audit of Financial Statements*, and to provide context for the requirement, especially in light of the fact that practitioners applying this standard may not be subject to ISQC 1, insert “An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively.”

Paragraphs 45 and 46 should be combined since the considerations apply to both, as indicated by paragraph A121. Paragraph 45 (b) – note that in ISA 620, *Using the Work of an Auditor’s Expert*<sup>2</sup>, a comparable requirement includes the qualifications for “sufficient”, whereas in this standard those qualifications are in application material. We believe these qualifications are essential for understanding the requirement and should be placed in paragraph 45.

Paragraph 53 - The requirement to respond “appropriately” is not well-defined in the application material. Paragraph A128 refers to “other action as appropriate in the circumstances.” We suggest adding additional requirements consistent with paragraph 10 of ISA 560, *Subsequent Events*.

Paragraph 55 - There is no requirement or application material regarding the practitioner’s responsibilities if the evaluation concludes that the reference or description of the subject matter information is inadequate.

Paragraph 60(l) - We believe a requirement that indicates “where appropriate the conclusion shall inform” is not consistent with the IAASB’s clarity drafting guidelines as it presumes, but leaves unstated, a requirement for the practitioner to evaluate whether or not an action is appropriate. We recommend revising this wording to more clearly convey the required actions on the part of the practitioner. The first sentence in paragraph A156 (the reference in paragraph 60(l) should not be to A158) merely repeats the requirement without adding to the understanding.

Paragraph A74 - We suggest adding wording, consistent with paragraph A22 of ISA 200, as follows: “or allow the practitioner to be satisfied with less than persuasive evidence when obtaining reasonable assurance.”

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<sup>2</sup> ISA 620, *Using the Work of an Auditor’s Expert*, paragraph 10

Paragraph A138 - The language “the practitioner does not report” uses present tense for auditor actions, which is not consistent with IAASB clarity drafting language. We recommend saying the practitioner “may not report”, or the practitioner “is precluded from reporting”. In the example given, it is unclear in what context the symbol is being provided.

Appendix, paragraph 3, fifth bullet, addresses changing a direct engagement to an attestation engagement. We believe this is important guidance that should be included in the body of the standard and suggest adding this to paragraph A56.

### Editorial comments

Subject matter information is defined as the outcome of the measurement or evaluation of the underlying subject information. However, throughout the document the phrase “the outcome of the measurement or evaluation of the underlying subject information [against the applicable criteria]” is used (see paragraphs 8(q), 56, A4(a), A36, A88, Appendix paragraph 2). We suggest, except in paragraphs 6(b) and 8(w), substitution of the defined term “subject matter information”.

The proposed standard uses the phrase “laws or regulations” whereas the ISAs use “law or regulation” (see IAASB December 2008 agenda item 4-A paragraphs 48-49). The language in the standard should be consistent with the IAASB’s clarity guidelines.

Paragraph 3 – We suggest changing *an integral part of* to *integral to the performance of*

Paragraph 18(a) - Sentences with double negatives are less clear than sentences stated positively.

Paragraph 20 (b)v – to be consistent with wording used elsewhere, including paragraph 24 (b)v of the Framework, we suggest the following wording:

There is a rational purpose for the engagement, including, in the case of a limited assurance engagement, that a level of assurance sufficient, in the practitioner’s professional judgment, to be meaningful to intended users can be obtained.

Paragraph 27(c) – “assurance conclusion” is a new term; “conclusions reached” is more consistent with ISQC1.

Paragraph 59 - We suggest adding the following wording, shown in bold type

...**the inclusion of** findings, recommendations or similar information **in the practitioner’s assurance report** is not intended to detract from the practitioner’s conclusion.

## COMMENTS ON PROPOSED CONSEQUENTIAL AMENDMENTS

### Framework

Overall we believe that the change to passive voice has hampered clarity, and that useful information has been deleted, for example in paragraphs 62-63. We also note that the Framework is repetitive with both ISAE 3000 and ISA 200.

Paragraph 2 - The reference to “basic principles and essential procedures” does not seem indicative of the current structure of the IAASB’s clarified standards. Which standards still contain “basic principles and essential procedures” indicated in bold type lettering? In addition, we believe the word “ambit” is not commonly used and may present translation difficulties.

Paragraph 11 - the last paragraph states that the term “subject matter information” will be used to mean the outcome of the measurement or evaluation of an underlying subject matter. As noted in our comments on ISAE 3000, we agree with this approach. We noted that this was not done in paragraphs 17, 22, 84 and paragraph 2(a) of Appendix 2 in the Framework.

Paragraph 27 - “Having been accepted, it is not appropriate” is not grammatically correct as “it” does not refer to what has been accepted. We suggest “After an engagement has been accepted, changing an assurance engagement to a non-assurance engagement, or a reasonable assurance engagement to a limited assurance engagement, is not appropriate...”

Paragraph 31 - Please see previous comment on the definition of “practitioner” in paragraph 8(q) of ISAE 3000. We suggest deleting the last sentence or, at a minimum, changing it to “The practitioner is also the measurer or evaluator in a direct engagement.”

Paragraph 39 - Change “this fact” to “the fact that the report may not be appropriate for another purpose.”

Paragraph 46 - The term “vague” is subjective and unclear; revert to previous wording

Paragraph 60 - “practitioner” should be “practitioner’s”

### ISAE 3410

The amendment to ISAE 3410 says it deals only with attestation engagements, yet paragraph A6(b) of proposed ISAE 3000 gives an example of a direct engagement to report on greenhouse gas (GHG) statements. This raises questions about whether direct engagements on GHG statements are permitted. If they are, why is ISAE 3410 silent on the matter? If they are not, why cite one in an example? If, as we suggest, a

separate standard on direct engagements is developed, this matter could be addressed in that standard.

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Thank you for the opportunity to comment on this exposure draft. If you have any questions regarding the comments in this letter, please contact Ahava Goldman at +1-212-596-6056, [agoldman@aicpa.org](mailto:agoldman@aicpa.org).

Respectfully submitted,

A handwritten signature in black ink that reads "Darrel R. Schubert". The signature is written in a cursive style with a large initial 'D'.

/s/ Darrel R. Schubert

Chair, Auditing Standards Board