



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

A proposed International Standard on Assurance Engagements issued for comment by the International Auditing and Assurance Standards Board

Comments from ACCA
August 2011

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Executive Summary

ACCA is pleased to respond to the exposure draft of proposed International Standard on Assurance Engagements 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board (IAASB).

We support the updating of the extant standard to reflect experience of its use and allow improvements, such as adoption of a Clarity style of drafting. We believe, however, that, rather than seeking to address many different subject matters, proposed ISAE 3000 should focus on the assurance engagement process, which would allow it to differentiate better between assurance on information separately measured or evaluated and those engagements where the practitioner directly measures or evaluates information.

If the standard is not refocused, we disagree with its proposed scope; instead, to recognise that most assurance engagements are commissioned voluntarily, we suggest conformity with other recent IAASB proposals for non-assurance engagements, whereby the deciding factor for its use is the need of the engaging party to have a report under a high quality international standard.

Our comments reflect the current circumstance that the IAASB is updating several pronouncements relevant to assurance and we call for consistency between them. We renew our calls for work on the fundamental principles of assurance as we feel that difficulties in several of the exposure drafts could have been averted had there been a proper theoretical underpinning for standard setting. Continuing piecemeal updating of standards has now resulted in a pressing need to achieve consistency of terminology. This might best be addressed in a wide-reaching IAASB project that also includes revision of the *International Framework for Assurance Engagements* but, as much of the terminology is also used by other standard-setting boards of the International Federation of Accountants, an IFAC-wide project is indicated.

The exposure draft includes proposed consequential amendments to the *International Framework for Assurance Engagements*. They are extensive and would introduce differences between it and International Standards on Auditing. If the Framework is to be made non-authoritative, we argue that it should encompass all engagements under IAASB standards. As an authoritative document it might better serve as a standard for concepts and terminology. We suggest, therefore, that a separate and properly argued exposure draft is needed for the Framework in due course.

General Comments

ACCA is pleased to have the opportunity to respond to the exposure draft of proposed International Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000) issued for comment by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

We support the updating of the extant standard for assurance engagements to incorporate improvements arising from experience of its use. Updating allows the revised standard to be written in the now-familiar Clarity style adopted for the International Standards on Auditing (ISAs). It also allows changes to be made to decouple it from the ISAs and to improve the perceived value of assurance engagements through, inter alia, better reporting.

The exposure draft proposes consequential amendments to the *International Framework for Assurance Engagements* (the Framework), which are extensive, and to two other ISAEs. The Framework is important to auditing as well as to other engagements dealt with in IAASB standards but no consequential amendments are proposed to International Standards on Auditing (ISAs). As a consequence, the proposed Framework would not be consistent with ISAs. Moreover we do not find the redrafting, which is presented only in a marked up version of the extant standard, to be up to the usual high standard of the IAASB: it appears to have been rushed and we believe that the document deserves better consideration. Later in this response we consider the role of ISAE 3000 and the form of the ISAE 3000 series of standards. We suggest that the Framework could have a role as a concepts standard but, even if it is (as proposed) made non-authoritative, an informative role could be improved, especially for engaging parties, by including reference to related services engagements. In summary, we believe that the Framework should be reconsidered and that a further, properly argued and presented, exposure draft is needed in due course. Until then there should be no change in the authority and content of the Framework.

SCOPE OF APPLICATION OF ISAE 3000

We do not agree with the scope as currently proposed. It is important that the scope is not drafted in such a way as would require the standard to be applied irrespective of the needs of the client and the users of the assured information. That would deter potential clients from utilising the services of a professional accountant, which would be against the public interest.

It must be recognised that the majority of assurance engagements are commissioned voluntarily and that the standards to be employed, if any, must be a matter for negotiation between the engaging party and the practitioner. So long as ISAE 3000 is a high quality standard that promotes the value of the assurance engagement, it will be, for practitioners, a vital element in presenting a convincing business case to potential engaging parties.

Consultants and other providers of assurance services may compete with practitioners and it would not be in the public interest for rules over the application of ISAE 3000 to restrict the commercial options of practitioners in such circumstances. We strongly advocate, therefore, the approach recently proposed in relation to, for example compilation engagements. In determining whether ISAE 3000 applies, it is correct to apply the criterion of intention to use the standard and report under it. The issuance of such a report clearly identifies an engagement as one to which an international standard applies. This supports the quality of the work and allows the practitioner to better convey the value of the engagement.

Paragraph 4 of proposed ISAE 3000 refers to the Framework as the pronouncement that identifies those engagements that fall within the scope of ISAE 3000. We do not find this approach satisfactory. The proposed consequential amendments to the Framework have been predicated on it becoming a non-authoritative descriptive document and while we do not agree with that proposal (as set out above) it would be inconsistent with that to use the Framework to determine the scope of ISAE 3000.

EARLIER COMMENTS AND ASSOCIATED RECENT IAASB PROJECTS

In a May 2008 response to the IAASB concerning proposed ISAE 3402 *Assurance Reports on Controls at a Service Organization*, we put forward the view that the updating of ISAE 3000 should be preceded by a consultation on the approach to the whole series of ISAEs. Our response noted that knowledge of ISAs could no longer be assumed (because of small company audit exemption); and we expressed concern that the IAASB would create a hugely detailed ISAE 3000 that would escalate the cost of assurance engagements and price professional accountants out of the small assurance market. We are pleased to find that proposed revised ISAE 3000 has been kept to a reasonable level of detail, nevertheless, SMPs in particular will find the current proposals (paragraphs 10 to 70 and the related application and other explanatory material) still far too lengthy for use with smaller entities. The drafting resembles 'ISAs with bits crossed out,' rather than a 'think small first' approach to a principles-based standard.¹

In November 2009, in response to a survey of national standard setters and IFAC member bodies, we noted that the IAASB was also consulting on proposed ISRE 2400 *Engagements to Review Historical Financial Statements*, and that a project to update ISA 700 *Forming an Opinion and Reporting on Financial Statements* was timetabled. We strongly suggested then that the IAASB should update all non-audit engagement standards (and the Framework) together so that users would benefit from a comprehensive range of pronouncements that were consistent and allowed report readers (including audit report readers) to both fully understand the individual engagement and to appreciate the benefit of involvement of a professional accountant.

We also identified a matter that we considered vital to the IAASB in maintaining its standard setting mandate for smaller entities; namely that such updating provided an opportunity to produce principles-based standards on a 'think small first' basis. Separately we also envisaged the need for some highly detailed ISAE 3000 series standards for specific reasonable assurance engagements carried out by auditors of public interest entities. In this response, we further develop our thinking on the construction of the series of ISAE 3000 standards and the role of the Framework.

¹ Paragraph A136 provides an indication of this: *'An inability to perform a specific procedure does not constitute a scope limitation if the practitioner is able to obtain sufficient appropriate audit evidence by performing alternative procedures.'*

We have recently been pleased to respond to exposure drafts of proposed revised standards for compilations and review engagements and reproduce in the body of this response certain comments that are relevant to assurance engagements more generally. We stress the importance of recognising the voluntary nature of most assurance engagements and the need, therefore, for cost-effective, high quality standards that promote the value of the engagement to those who engage practitioners and who benefit from their work.

ASSURANCE REPORTS

We welcome the recognition in ISAE 3000 (paragraph A140) that the style of reports may be 'short form' or 'long form' and the approach taken to requirements for reporting, which addresses the minimum elements to be included. We do, however, raise certain concerns regarding the detail of the requirements as set out later in this response the section headed *ISAE 3000: Comments on Specific Paragraphs*.

We have significant concerns about requirements that are likely to result in negative wording and the inclusion of material in reports, particularly for limited assurance, detracting from the value of engagements. We set out those concerns more fully in the section of this response referred to in the paragraph above.

We believe that the usefulness of ISAE 3000 would be enhanced if illustrative assurance reports were provided.

THE ISAE 3000 SERIES OF STANDARDS

As currently proposed, ISAE 3000 is applicable to all assurance engagements either on its own or together with other pronouncements within the ISAE 3000 series that are specific to the relevant subject matter information and level of assurance. For example, *ISAE 3402 Assurance Reports on Controls at a Service Organization* applies only to reasonable assurance engagements on the subject matter information referenced in its title.

As set out elsewhere in this response, we suggest that ISAE 3000 should not be focused on subject matter information but on the process necessarily undertaken by the practitioner in order to express an assurance opinion.

We see merit in presenting relevant aspects of ISAE 3000 (as currently proposed) within the subject matter information specific standards so that they become stand-alone documents. While we recognise that such subject matter specific standards would necessarily be slightly longer as a result, the fact that the engagements concerned will be those in which there is high public interest, argues that this is an acceptable price to pay for enhanced usability and understandability.

Should the IAASB have any questions about our response, or require further information, please contact in the first instance:
David York, Head of Auditing Practice, at david.york@accaglobal.com

Matters on which Specific Questions are Asked

In this section of our response we provide our views on the significant matters in relation to which the exposure draft requests specific comments.

Question 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?

No: some requirements are subject matter information specific and too focussed on reasonable assurance and the proposed standard is not, therefore, sufficiently flexible. This is a matter of fundamental structural importance as discussed below.

The question focuses on requirements but it is necessary to put requirements into an overall context. First, we examine the consequences of how proposed ISAE 3000 has been drafted.

As the explanatory memorandum forming part of the exposure draft itself explains, the proposed nature and extent of requirements in proposed ISAE 3000 has been determined by considering all requirements in the Clarified International Standards on Auditing (ISAs). The ISAs are very much specific to the particular subject matter information that is historical financial statements. No theoretical split has been maintained in ISAs between the standards that drive the quality of the assurance (audit) process and those that relate directly to the subject matter information and the determination of a level of reasonable assurance that is appropriate to it. Neither has any analysis of this nature been done when creating proposed ISAE 3000. As a result, proposed ISAE 3000 is itself a mix of requirements relating to the assurance process and those that are too bedded in the subject matter information of ISAs. We suggest that the latter requirements are not appropriate for inclusion in proposed ISAE 3000.

Second, we examine the implications for standard setting of the wide range of engagements that proposed ISAE 3000 may cover.

We contrast the viewpoints of two types of intended user of the outcomes of assurance engagements. The first engagement is carried out by the auditor of a public interest entity on certain of its subject matter information. Here, the knowledgeable user is looking for detailed audit-like standards capable of driving 'investment grade' reasonable assurance on matters significant to the operations or governance of an entity. The second engagement is carried out by a small practitioner on the compliance by a manufacturing facility with the 'code of conduct' of one of its major customers. The direct report by the practitioner is intended to provide limited assurance to the supply chain manager, the level of work to provide meaningful assurance is agreed between the parties, as is what constitutes a material (reportable) deviation from the code. The major customer engages the practitioner to utilise local insight as well as inspection and assurance expertise. While assurance is being preferred to agreed-upon procedures, the engagement could equally be commissioned from one of many specialist consultancy firms. The engaging party is knowledgeable but unwilling to pay for work done merely to comply with standards if such standards are not directly relevant to the engagement.

We do not believe that it is possible to reconcile the two examples given above through flexibility in just one standard (proposed ISAE 3000) because significant factors in an assurance engagement, such as the 'shape' and level of assurance (see below for an explanation of 'shape') and materiality are too bound up with the nature of the subject matter information and the criteria. Where the public interest is best served through ensuring comparability between similar engagements, there is a case for specific standards, but otherwise, such matters are necessarily determined by the engaging party.

This has already been recognised in relation to some subject matter information for which separate standards are in existence, or proposed, in the ISAE 3000 series. More fundamentally, the impossibility of addressing all assurance engagements under one standard has already been recognised, as audits and reviews of historical financial information have separate standards (though this is largely for historical reasons).

We see a role for ISAE 3000 as a standard driving the quality of the assurance process rather than a standard directly addressing the assurance in relation to any specific subject matter information. We also consider the need to address concepts and reporting in standards for assurance.

We examine the current proposals in order to draw some conclusions that may assist in developing a way forward for ISAE 3000. This analysis involves consideration of reasonable and limited assurance, which are the subject of question 2 below.

Reasonable assurance is a concept that recognises that, for some subject matter information, users want high (but not absolute) assurance. This involves the collection of much evidence and hence reasonable assurance is relatively costly. Although 'high but not absolute' may seem to be a concept independent of subject matter; it is not because the engagement standards do not specify a performance level (for example a maximum failure rate) but instead specify procedures to be followed (through setting objectives and detailed requirements). The difference may be likened to requiring a chef not to cook a specific standard of dish, but to follow a particular recipe.

Reasonable assurance becomes, therefore, not just a level but a 'shape' of assurance. The shape is determined by the emphasis standards place on aspects of the process resulting from characteristics of the subject matter information (such as the risks of misstatement due to fraud or related parties). It is the existence of this shape that underpins the 'an audit is an audit' reasoning² to support the existence of just one set of auditing standards.

Limited assurance may theoretically be on a continuum from a low level to a level approaching that of reasonable assurance. The nature of the subject matter information and the needs of the intended uses are important factors in determining the actual level of limited assurance in any particular engagement. There is a concept that limited assurance must be at least at a meaningful level to justify a particular engagement. That minimum is determined either by the standard setter after public consultation (for example in relation to a financial statement review), or is an interpretation of the actual or assumed needs of the intended uses. The minimum is thus often the actual level demanded by the intended user or the market.³

² IFAC Policy Position 2 *IFAC's Support for a Single Set of Auditing Standards: Implications for Audits of Small- and Medium-sized Entities* (September 2008)

³ The level of limited assurance is not set directly but through determining the necessary extent of evidence gathering.

For a standard setter to be able to establish a level of limited assurance, it is necessary for the subject matter information and the needs of the intended users to be relatively well-known and uniform. This has been the case for financial statement review and to a lesser extent for limited assurance on greenhouse gas statements, where the market demands more than analytical procedures and inquiry.

The assurance that intended users derived from an engagement depends on the assurance reported by the practitioner and the users' knowledge and understanding of such matters as the practitioner's integrity and competencies.

It can be seen from the above that assurance standards may be important to users in different ways. In a reasonable assurance engagement (for example an audit) the standards may prescribe the shape of that assurance and also define materiality (though that is not done precisely). In a limited assurance engagement, the standard may prescribe the appropriate level of evidence gathering activity. Whether or not these prescriptions are included, standards regulate how the practitioner carries out the engagement thereby contributing to the intended users' perceptions of the practitioner's performance.

Drawing on the above, we conclude, in relation to the ISAE 3000 series that:

1. It is not possible for ISAE 3000 to prescribe the shape of reasonable assurance because of the wide range of subject matter information that may be reported on. Consequently, requirements should be restricted to those necessary to drive the quality of the assurance engagement process (we also consider concepts and reporting below).
2. Because of the wide range of subject matter information that may be reported, it is similarly not possible for ISAE 3000 to prescribe the minimum level of limited assurance. Again, requirements should be restricted to those necessary to drive the quality of the assurance engagement process.

3. As neither (1) nor (2) above involves requirements specific to either reasonable or limited assurance, there is no justification for the distinction to be drawn in the standard at all in so far as regards the performance of the engagement. If the standard is to include reporting then it is a separate judgement as to whether the form of reporting should, or should not, reflect any differences between the artificial categories of reasonable and limited assurance. We do not expect this conclusion to have been reached by other respondents and we anticipate many calls for ISAE 3000 to differentiate clearly between the two types of engagement. Nevertheless, the logic supporting our position is sound and there are further conclusions about the construction of the ISAE 3000 series that build upon it, as set out below.
4. For those categories of engagements where intended users demand a particular materiality and shape of reasonable assurance it is necessary for there to be subject matter information specific agreement on that; either engagement by engagement or through the setting of standards issued in the ISAE 3000 series.
5. For other reasonable assurance engagements, ISAE 3000 will regulate only the process of the engagement. As a consequence, the proposed title for ISAE 3000 may no longer be appropriate and we suggest that it be called *ISAE 3000 Assurance Engagements Process Standard*. This will allow it to be contrasted with other standards dealing with specific subject matter information. for example one currently proposed to be titled *Assurance on a Greenhouse Gas Statement*.

6. As an audit is a specific type of reasonable assurance engagement, ISAs could similarly be reinterpreted into an assurance engagements process standard and a series of standards that determine the shape of reasonable assurance for historical financial statements. Realistically, we do not expect the IAASB to reopen the whole question of auditing standards so soon after completion of the Clarity project. However, we remain disappointed in the way that the fundamental principles of assurance and other overall matters continue to be neglected in standard setting. In a separate response to the Consultation Paper *Proposed IAASB Strategy and Work Program for 2012–2014*, we reiterated our long-held view (for example expressed at the commencement of the ISA Clarity project) that standard setting would be improved by such a theoretical underpinning.⁴
7. Elsewhere in this response, we draw attention to the treatment of the Framework and suggest that it is necessary to consider its potential use as a concept standard together with the range of engagement standards currently in issue by the IAASB. If this is not done, proposed ISAE 3000 will necessarily present concepts and may also contain exposition of techniques (such as analytical procedures, or aggregation of misstatements) and requirements for reporting. We consider that maintaining a theoretical separation between such elements is a necessary part of improving the understandability and usability of standards, particularly for engaging parties and intended users.

⁴ In our June 2011 response to the exposure draft of ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements* we discussed the problems of the lack of theoretical underpinning of standards and, as an illustration, argued that an assertion that materiality is independent of the level of assurance was unjustified. We reproduce relevant aspects of that response as an appendix to this response.

Question 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: 'reasonable' and 'limited' assurance are defined in ISAE 3000 as categories in one dimension of the classification of an assurance engagement. The only difference between the two is that the acceptable level of engagement risk is greater for a limited assurance engagement. Mathematically, the two categories could be very similar, therefore, and there is no recognition given to the special position of reasonable assurance as being, for specific subject matter information and materiality, high but not absolute assurance. Even if it is necessary to temper the concept with considerations of reasonable cost and the underlying precision of the subject matter information, there remains the badge of reasonable assurance being that the practitioner is unfettered in the choice of evidence gathering procedures. This is the essence of the concept that we believe is important to communicate through the standard⁵ to intended users and engaging parties.

In our answer to question one we examine the nature of reasonable and limited assurance in greater detail.

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

No: as set out in greater detail in our answer to question one above, we consider that proposed ISAE 3000 should not include those requirements drawn from ISAs that are predicated on the need for reasonable assurance on subject matter information similar to historical financial statements. We give the following examples of the requirements that fall into this category:

⁵ We do not infer that proposed ISAE 3000 need necessarily be the standard to include such material. In general, we suggest that such a role would better be taken by an updated pronouncement building on the Framework..

Paragraphs 17 to 26

These requirements contain several elements of risk management, restrictive practices and prescribing the behaviour of parties other than the practitioner. In general, they address whether an engagement is allowed to be conducted in accordance with the standard; but what is actually important commercially is whether the standard should be applied in a particular engagement. This is not a matter for requirements. This should be dealt with when setting the scope of the standard and, as set out in our general remarks, the standard should apply by agreement where the engagement is suited to it and the engaging party is willing to meet the cost of the resulting engagement and report.

Paragraphs 27 to 31

The proposed standard analyses the practitioner into an engagement partner and an engagement team and also makes reference to firm. The role of engagement partner in a statutory audit is often regulated and while there is merit in ISAs emphasising specific responsibilities of the role, we do not believe that this is necessary for the complete range of assurance engagements. It is the competences and performance of the practitioner that is important to intended users, not its internal detail.

Paragraph 32

We see no justification for including requirements relating to quality control review specific to the engagement partner and engagement quality control reviewer. Such matters are relevant to the audit of public interest entities and are unlikely to be relevant to all but a few assurance engagements. Moreover, such engagements would, we suggest, be those for which specific further standards in the ISAE 3000 series would be appropriate, which could contain such requirements where considered necessary. We do not believe that the inclusion of the words 'if any', making the requirements conditional, provide sufficient justification for their inclusion.

Paragraphs 41 and 42

The requirements should not discriminate between reasonable assurance engagements and limited assurance engagements. The requirements reflect the underlying differences in methodology whereby it is necessary to assess risk precisely in relation to the level of reasonable assurance but that should be dealt with in explanatory material concerning the nature of reasonable assurance rather than encoding it into requirements.

Paragraph 43

In an audit it is necessary to accumulate uncorrected misstatements as the eventual opinion is on the financial statements as a whole whereas evidence gathering frequently relates to separate account balances and disclosures. While a similar circumstance may occur in an assurance engagement, many engagements are much simpler or may include misstatements that are incapable of sensible aggregation because of their different natures (for example, not all being capable of simple expression in common currency). We do not consider that this requirement is sufficiently broad in its application to merit separate inclusion, especially given the requirement in paragraph 56(b) to evaluate uncorrected misstatements individually and in aggregate.

Paragraph 45 (and 8(r))

As we have expressed earlier in this response⁶, we are uncomfortable with the analysis of the practitioner into the engagement partner and the engagement team. This is, in part, because the engagement partner has been ascribed characteristics of having specialist knowledge and competence in assurance skills and techniques. This is a matter for the practitioner as a whole and we are certainly aware of circumstances where the engagement partner's role is fulfilled by someone who has a different set of competencies (for example, in a greenhouse gas assurance engagement, an engineer).

In an audit the 'expert' is defined as someone whose expertise is in a field other than accounting or auditing; in other words neither in the subject matter information field nor in assurance (audit). Thus the expectation is that the audit engagement team will collectively possess that expertise. The definition in proposed ISAE 3000 repeats this and is, therefore, wrong as experience in accounting is unlikely to be relevant to many assurance engagements. This makes the requirement itself inappropriate although, if corrected, we can see an argument for including a related requirement. Having said that, paragraph 46 deals with using the work of another practitioner or an internal auditor and could also deal with the expert.

The word 'also' in the introduction to the bullet points in paragraph 45 is unnecessary and potentially confusing.

⁶ In our remarks concerning paragraphs 27 to 31.

Paragraphs 47 to 52

These requirements concerning written representations contain elements of risk management and prescribing the behaviour of parties other than the practitioner. They also embody an implicit assumption that an assurance process is concluding with the obtaining of written representations including those concerning the preconditions for the engagement (see our comments on paragraphs 17 to 26 above). There is a danger to written representations that, by including specific requirements in the standard, the practitioner will be likely to assume that such evidence can on its own be sufficient in certain circumstances. For the majority of assurance engagements we believe it should be a matter of professional judgement as to whether formal representations should be obtained, from whom, whether in writing or not, and to what relevant date or dates.

We agree that there should be a requirement to consider the implications for the engagement of the deficiencies in requested representation. However, if a practitioner doubts the competence, integrity, ethical values or diligence of those who would provide the representation (paragraph 52) the time to act on that is before, not after, making any request.

Paragraph 54

Requirements in an audit concerning other information derived from the fact that reports accompanying financial statements may be associated with the name of the auditor as users mistakenly conclude that they have been included in the scope of the audit work. There is a separate issue as to whether other information is capable of undermining the credibility of the financial statements or the auditor's report in some way.

The difficulty in attempting to extend this to assurance engagements in the form of requirements as drafted is that the range of other information can be extremely wide, the volume of such information may completely outweigh the subject matter information, and the practitioner may not have the experience or expertise to identify a material inconsistency or a misstatement of fact.

The key aspect here is the identification of other information, if any, for which it would be appropriate for the practitioner to be subject to certain requirements, but the definition in paragraph 8(p) does not help in this regard. There should necessarily be a test of whether the intended users would view other information as connected in the same way as, for example a report by the directors is connected with a company's financial statements.

We suggest that this concept and related requirements do not easily transfer from ISAs and that it may be better dealt with as part of the application and other explanatory material. If the practitioner is to have any substantial responsibilities towards other information, that in itself may form the subject matter information for a separate, albeit linked, assurance engagement.

- (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: neither should ISAE 3000 require this for reasonable assurance engagements, as the need for it depends on the characteristics of the subject matter information and the demands of intended users.

Question 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"?*

No: the existing terminology is acceptable and the word 'attestation' is used in some jurisdictions to refer collectively to assurance, compilation and agreed-upon procedures engagements.

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

Although the theoretical distinction is clear, we suggest that redrafting ISAE 3000 to focus on process would enable a clearer practical distinction to be drawn between direct engagements and attestation engagements.

- (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))?*

The definition refers to a 'proper measurement or evaluation' which is not developed as a concept. In most instances, what is 'proper' will be within a range of outcomes, and in a direct engagement the practitioner will necessarily determine what is proper. Further consideration of 'materiality' and 'information uncertainty' would help illuminate the underlying issue of whether 'misstatement' is a useful concept for a direct engagement. We suggest that redrafting ISAE 3000 to focus on process would enable its terminology to better reflect the differences between the two forms of engagement.

- (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: paragraph A10 treats developing criteria the same as if there were simply a choice between sets of established relevant criteria. Paragraph 20(b)(ii) requires determination of the suitability of criteria but the material in paragraphs A42 to A47 does no more than mention the possibility of practitioner-developed criteria. Given the potential importance of such circumstances, more guidance is needed – if only on the interface between ethics and engagement standards. It is worth noting also that the characteristics of suitable criteria in the proposed Framework (paragraph 45) are now drafted in such a way as may preclude their use to assess criteria for suitability.

Question 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: users need to be informed about the work done but also about the qualities of the practitioner that underpin the credibility of the report. The inclusion of quality control and ethics information is welcomed, but more could be done to describe practitioner competencies – as without this, the work done is of little consequence. The standard has to allow reporting that conveys the value of the assurance – this should be encouraged in the application material.

- (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?*

No: it is better to state what has been done rather than what has not been done. This communicates the value of the engagement.

Users may have no theoretical understanding of reasonable assurance engagements and, in relation to the particular subject matter information, reasonable assurance engagements may be rare, or not take place at all.

- (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?*

This is not something that is suited to the inclusion of related requirements; it is a matter of professional judgement in the particular circumstances. We suggest, however, that illustrative reports would assist in the consistent application of the standard.

Question 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?

No: such a conclusion is not communicating the assurance, it merely reports the 'fact' that, in the circumstances, nothing came to the practitioner's attention. Negative reporting may be difficult to understand in practice and does not convey the value of the engagement. As most assurance engagements are commissioned voluntarily, it is important that standards do not deter the commissioning of engagements from practitioners.

Question 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 agree that the standard should be for use as widely as possible because, in practice, assurance may be provided by many parties who are not professional accountants in public practice. An open standard must nevertheless provide safeguards to users that those who purport to work in accordance with it also apply rigorous ethical and quality control standards. The danger to commissioning parties and intended users does not arise from competent practitioners but from those prepared to disguise low quality work by claiming compliance with a high quality international standard.

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

We agree with the essential aspect of the definition; that it means those who carry out the engagement. The definition given in paragraph 8(q) is however very lengthy and the descriptive examples of marginal utility. Such matters may be better dealt with in the application material.

Other matters

The IAASB expressed interest in receiving comments from the perspectives of those concerned with:

- *the public sector*
- *small- and medium-sized practices (SMPs) and small- and medium-sized entities (SMEs)*
- *developing nations*
- *translations*

Because of the wide nature of our membership, our comments have generally taken account of these perspectives. We are particularly pleased to see the inclusion of appropriate material throughout recognising the distinctive nature of the public sector (for example paragraph A33).

All the above perspectives would be best served by concise drafting using plain language. The readability of many paragraphs is poor because of the inclusion of superfluous words, often those that seek to increase precision but are in reality just obscuring the intended meaning.

Effective date

The IAASB suggests an effective date of some 12 to 15 months after issue but with earlier application permitted.

There are considerations about the need to issue and implement other ISAE 3000 series standards and make any changes to the Framework to a reasonable timetable. Moreover, consistency with review and compilation standards should be considered during the finalisation of several proposed standards. These matters may validly delay the issue of ISAE 3000 but, even so, the suggest effective date may be too soon, particularly for those jurisdictions where translation is necessary. We suggest, as a minimum, 18 months after issue.

ISAE 3000: Comments on Specific Paragraphs

In this section of our response we provide comments on specific paragraphs in ISAE 3000. These are in addition to such comments made earlier in this response, in particular in our answer to question 2(b).

Paragraph 8

Definitions are presented ‘for the purpose of this ISAE and other ISAEs . . . ’ but many defined terms are also used in ISAs and ISREs. Continuing piecemeal updating of standards has now resulted in a pressing need to achieve consistency of terminology. This might best be addressed in a wide-reaching IAASB project that also includes revision of the Framework; but, as much of the terminology is also used by other IFAC standard-setting boards, an IFAC-wide project is indicated.

Paragraph 37

The requirement should not prescribe the nature of the understanding explicitly for reasonable assurance engagements and implicitly for limited assurance engagements. In an audit, knowledge of the entity is required to be obtained as part of risk assessment (this is dealt with at length in ISA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*). However, there is a very important difference from proposed ISAE 3000: in an audit ‘*The auditor uses professional judgment to determine the extent of the understanding required.*’ It seems odd, therefore, that a more onerous requirement is placed on a practitioner carrying out an assurance engagement, especially one that aims to achieve limited assurance. The question of what is sufficient also remains unanswered, although if the engagement is completed the requirement would apparently always be satisfied. See also our answer to question 2(c) above.

Paragraph 39

'The practitioner shall apply assurance skills and techniques as part of an iterative, systematic engagement process.'

In order to understand this requirement it is necessary to refer to the definition of assurance skills and techniques and the application material (paragraph A8 – for which the heading contains a 'typo') and also to try to interpret the interaction of this requirement and those for professional scepticism and professional judgement in paragraphs 33 and 34. There is then a question as to the effect the words 'part of' are intended to achieve and indeed what constitutes an 'iterative, systematic process' in the circumstances.

We are driven to the conclusion that, as drafted, the requirement will not drive any particular practitioner behaviour and will not contribute to engagement quality.

Paragraph 53

The first sentence of this paragraph is unnecessary and could be accused of being practitioner risk management.

The long second sentence of this paragraph deals with two separate matters; one of which is implicitly conditional on the subject matter information being as at a particular date that precedes the date of the assurance report. It is potentially confusing and should be simplified.

Paragraph 60(d)

If the criteria are appropriately identified in the subject matter information we see no need for a requirement to repeat that identification in the assurance report.

Paragraphs 60(e) and (f)

If the subject matter information includes proper disclosure of inherent limitations or that the criteria are designed for a specific purpose, we see no justification for repeating that information in the assurance report. Such requirements can be interpreted as practitioner risk management.

Paragraphs 60(i) and (j)

In the context of reporting, we are uncomfortable with the use of abbreviations for important professional documents as, in the absence of illustrative assurance reports, practitioners may use the wording in the requirements, which may not be fully understood by the intended users. We would welcome the inclusion of illustrative reports, as these would assist in the consistent application of the standard.

Paragraph 60(k)

We do not agree with the inclusion of wording in the case of a limited assurance engagement stating what the practitioner has not done. In relation to the particular subject matter information, reasonable assurance engagements may not take place or maybe so rare that contrasting with them is meaningless. It is better to describe what has been done than what has not.

The enumeration of the consequences of the limitation can be interpreted as practitioner risk management.

Paragraph 60(l)

We do not agree with the use of the terminology that is proposed as it provides an unnecessary complication. An opinion may be referred to simply as an opinion not, as is proposed, a form in which the conclusion is expressed. There is no term used for the expression of the conclusion in a limited assurance engagement and we believe that it should also be termed an opinion, as it is similarly a judgement reported by the practitioner.

The existing terminology, which is consistent with that used in ISAs, that the practitioner issues a report including an opinion, seems to us to be entirely satisfactory.

Paragraphs 63 to 67

We note that paragraph 63 introduces the concept of unmodified and modified conclusions. We find the wording here inelegant, for example using the word concludes in the opening line of paragraph 63 in its natural language form as well as in 'unmodified conclusion'. As stated above, we recommend returning to the recognised form in which the report contains an opinion.

Paragraph 68

While this requirement is commendably brief, it does not drive any resulting action such as actual communication. The application and other explanatory material in paragraph A166 could usefully be extended to deal with this and associated matters, such as timeliness of communication.

Paragraph 69

The requirement refers to ‘an experienced practitioner’ but this is an example of something in ISAs that requires expansion because the experience has to include the subject matter information in question (in ISAs that was assumed of auditors).

Paragraph 70

There is a requirement to document addressing inconsistent evidence, but the inconsistency is not precisely that set out in the requirements in paragraph 38. We suggest that the two requirements be brought into line, or that the matter could be satisfied by the requirements in paragraph 69. We are not convinced that it is necessary, for all assurance engagements, to separate out documenting the consideration of inconsistent evidence.

Appendix: Extracts from ACCA's June 2011 Response to Proposed ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements*

RELATED CONSULTATIONS

It has not been possible to incorporate in this response comments that may have been made had a related exposure draft been available earlier.

An exposure draft (with a comment period ending on 1 September 2011) has recently been issued of a proposed revised ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000), which acts as the 'umbrella standard' for the ISAE series. We recognise that the nature and extent of coverage of matters in ISAE 3000 will necessarily affect that in proposed ISAE 3410 and indeed, the ISAE 3000 exposure draft already proposes some consequential amendments.

In a separate recent response concerning proposed International Standard on Review Engagements 2400 (Revised) *Engagements to Review Historical Financial Statements* we suggested that it should be finalised only after consideration of comments on the exposure draft of ISAE 3000. We make the same suggestion for proposed ISAE 3410, else there is a risk that it will have to be changed (if only by consequential amendments) shortly after its issue.

PIECEMEAL UPDATING WITHOUT A THEORETICAL BASE

We regret that the IAASB has continued to undertake piecemeal updating of its standards that deal with assurance and related services.

Underlying the issue of piecemeal updating has been the continued absence of an agreed set of fundamental principles for assurance. As a result of this, it has been difficult for the individual standards to achieve a consistent and logical approach and it has also made it less easy for those responding to consultations to suggest improvements.

In the remainder of this response, we identify issues that can only satisfactorily be resolved by making use of a well-developed conceptual framework for assurance. We expect to develop our thinking on this and include related comments in our forthcoming response to proposed ISAE 3000. We caution that as ISAE 3410 is concerned with a subject matter that is specialist in nature, there may be relatively few respondents and such as there are may underrepresent constituencies, such as small and medium-sized entities. Thus, extreme caution should be exercised in drawing general conclusions from respondents' answers to those questions having wider implications.

MATERIALITY – AN EXAMPLE OF THE LACK OF A THEORETICAL BASE

While the guidance provided on materiality is useful in practice, without a theoretical basis, the practitioner is less sure of the correct interpretation. The proposed standard (and indeed ISAE 3000) in effect defers to the applicable criteria as providing a frame of reference for the determination of materiality but, in the absence of that, provides guidance on the characteristics of materiality.

Paragraph A51 of proposed ISAE 3410 specifically states that decisions regarding materiality are not affected by the level of assurance; that is, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement. This assertion is not supported by argument.⁷ The statement could, therefore, be:

- A plain fact intended as a representation of the real world,
- Part of the definition of the term 'materiality' (as a concept that is independent of the level of assurance), however, materiality is not defined in the proposed standard (except with regard to the term, performance materiality), or
- An instruction to the practitioner that their judgement concerning materiality must disregard whether the engagement is reasonable or limited assurance

There are similar directive statements, such as materiality is affected by the practitioner's perception of the common information needs of intended users as a group (paragraph A49).

⁷ Proposed ISAE 3000 states that this is 'because materiality is based on the information needs of intended users' (paragraph A84). This is not, however, a complete argument.

Proposed ISAE 3410's assertion that the level of assurance would not affect the view of intended users concerning materiality is open to challenge if it is intended as a plain fact. It might be thought that, as materiality is primarily related to the GHG statement itself, the level of assurance on that would not affect the common information needs of intended users as a group. However, this does not stand up to scrutiny. In practice, common information needs of intended users cannot be related to materiality in isolation. The propensity of information to be such as would meet user needs is affected by many factors. One of these may be analysed as materiality, another might be analysed as risk of misstatement, and it is only in combination that these two concepts can be observed by users. If the user is presented, for example, with a single figure representing an entity's GHG emissions in a particular period, and the user is intending to make some decision based on that, then the decision will be influenced by the degree of confidence in the figure and the confidence interval. Neither of these is separately discernible.

Thus, in discussing materiality, proposed ISAE 3410 must necessarily also discuss risk. From a user's perspective, risk is fundamentally affected by whether a statement is presented without assurance or with assurance; in the same way that the user's perception of the statement will be affected by users' degree of trust in the faithful reporting of any particular entity. We do not believe, therefore, that decoupling materiality and the level of assurance represents the real world.

We have attempted, to a limited extent, a literature survey to establish whether there is empirical evidence to support or disprove the proposed standards' position. Although the normative principles that influence the determination of audit materiality have been well served by academics, we have not been able to locate any study that is directly relevant. The literature survey did reveal that many working definitions of materiality involve the level of impact on the judgement of a reasonable person in circumstances where that person would be presented with audited information (statutory financial statements), not the financial statements prior to any assurance, or after just review. We suggest therefore, that the IAASB might wish to commission research on the specific matter if it believes that the statement is made as a representation of fact.

Naturally, if the statement is merely intended to address how professional judgement should be exercised in relation to the concept of materiality then there is no need for such research. However, a well-considered theoretical base for the positions taken would ensure consistency and supportability for the approach adopted, which otherwise could be regarded as encroaching too much into the methodology of individual firms.

Proposed ISAE 3410's approach to materiality also suffers from two main practical deficiencies. There is no mention of the role of management in determining materiality in relation to the GHG statement, nor is there a discussion of stakeholder engagement, which is often highly important in the materiality decisions of management (albeit that the concept of materiality in, for example, a sustainability report may be wider than discussed in proposed ISAE 3410).

OTHER

Paragraph 35

Paragraph 35 requires for both limited and reasonable assurance that the practitioner shall obtain more persuasive evidence the higher the practitioner's assessment of risk.

This is the recognised approach for a reasonable assurance engagement, but we question whether it can be applied in the same way to a limited assurance engagement. In a reasonable assurance engagement the practitioner seeks to reduce the residual risk to an acceptably low level. This is a precise target that, to a large extent, determines the work carried out. The practitioner carries out more procedures to confirm the absence of material misstatement until the weight of evidence is sufficient to achieve that. In a limited assurance engagement, the practitioner may decide not to obtain more persuasive evidence if the degree of evidence is considered to be sufficient, ie above the minimum necessary. This may result in a similar amount of work on two different aspects of the statement even if for one there is a higher assessment of risk. The difficulties we have with this paragraph may be a matter of drafting rather than of principle but we do not think it gives the right impression for the limited assurance engagement at present.

Paragraphs 66 and 67

These paragraphs deal with assembly of the final engagement file and while such matters have recently been included in International Standards on Auditing we note that no such requirements were included in the recent proposed standard on review engagements. There are no special features that would make a GHG assurance engagement different to other engagements under ISAE 3000 and so we suggest that this matter be reserved for consideration until the finalisation of ISAE 3000. We suggest that the need for requirements relating to the assembly of a final file might only be necessary in respect of public interest entities where the GHG statement is itself of public interest.

Paragraph A17

The listing of general GHG competencies introduces questions of standardisation between IAASB pronouncements. As a minimum, it should be considered whether ISAE 3000 should set out parameters for inclusion of assurance and subject matter competencies.

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29 LINCOLN'S INN FIELDS
LONDON WC2A 3EE
UNITED KINGDOM

T +44 (0)20 7059 5000
F +44 (0)20 7059 5050

www.accaglobal.com