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

Dear Sir

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

The Auditor General for Wales welcomes the opportunity to comment on this exposure draft. This response has been prepared on behalf of the Auditor General by the Wales Audit Office.

The Auditor General and the auditors he appoints are responsible for audits of the Welsh devolved public sector, which includes:

- the Welsh Government;
- Welsh Government sponsored and other related bodies;
- local government bodies in Wales; and
- local health bodies in Wales.

We audit the accounts of public bodies and, primarily through our performance audit and value for money work, examine whether public services are being delivered economically, efficiently and effectively. We also certify claims for grants and subsidies and returns of income collected. Most of our work is published in audit reports on individual public bodies as well as reports on specific value for money studies and topical issues.

In preparing this response, we have considered our own experiences and perspectives and the potential implications of the exposure draft for our approach to performance and value for money audit work and our work on grant claims and returns.

Overall, we welcome the exposure draft as having the potential to provide an authoritative and helpful framework for the development and delivery of our work, and as a point of reference to help ensure that the quality of our work matches international best practice. We do, however, have some fundamental concerns about the exposure draft as it currently stands.

ISAE 3000 potentially applies to a wide range of different types of engagement, in both the public and private sectors. To be able to capture all of these in a 'one size fits all' standard, the standard needs to be based on the principles that the IAASB could reasonably expect should be applied in all cases. This aim is clearly set out on page 4 of the Explanatory Memorandum. However, as it currently stands, the exposure draft is far too prescriptive and detailed in terms of its requirements, and, as a result, there is a risk that it might discourage adoption by many of the organisations at which it is targeted. As just one example, but an important one, we would contend that the Auditor General's assurance reports accord with the principles underpinning the stated requirements for *Assurance Report Content* (paragraph 60 of the exposure draft.), but we do not comply (nor would we wish to) with all of the basic elements that the exposure draft states should be included as a minimum. The exposure draft could also be much clearer about whether its more prescriptive elements represent 'requirements' that must be complied with or 'guidance' that may be followed.

Our other major concern relates to the terminology used in the exposure draft and the language used to describe certain key terms, which in places can be challenging even for a professional accountant to understand. To reflect the broad range of assignments it covers, the draft states that the standard should also be applied by competent practitioners other than professional accountants in public practice. However, the language in the draft is very much that of the financial attest auditor. In the public sector there are a wide range of assurance engagements that are very different from traditional financial statement audit engagements. To be relevant and meaningful, therefore, the standard needs to be expressed and explained in terms that will be understood easily by non-audit practitioners.

Our detailed responses to the consultation questions are included as an appendix to this letter. I hope you find them useful.

If you have any queries regarding our response, please contact me (e-mail: paul.dimblebee@wao.gov.uk or telephone: 02920-320569).

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. Dimblebee', enclosed within a large, loopy circular flourish.

**Paul Dimblebee**  
**Group Director, Performance Development and Guidance**

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

#### **Wales Audit Office (WAO) response to consultation questions**

- 1. Do respondents believe that the nature and extent of requirements in proposed ISAE 3000 would enable consistent high quality assurance engagements while being sufficiently flexible given the broad range of engagements to which proposed ISAE 3000 will apply?**

The proposed ISAE 3000 is clear in its expectations, and the rationale underpinning its expectations is clear. And, to the extent to which it is principles-based, the proposed ISAE 3000 gives sufficient flexibility to cover the range of relevant assurance engagements in which the WAO participates.

However, although it purports to be principles-based, the requirements set out in the exposure draft are far too detailed and prescriptive and, in many places, full compliance would be deemed (from the WAO's perspective) undesirable and detrimental to the efficiency and effectiveness of our engagements. For example, although the Auditor General's assurance reports accord with the principles underpinning the stated requirements for *Assurance Report Content*, we consider that it would be too onerous, and detrimental to the impact of the reports, if we were to comply with all of the basic elements set out in paragraph 60 of the exposure draft.

As ISAE 3000 potentially applies to a wide range of different types of engagement, a description and examples of the different types of engagement covered would be helpful.

- 2. With respect to levels of assurance:**

- (a) Does proposed ISAE 3000 properly define, and explain the difference between, reasonable assurance engagements and limited assurance engagements?**

Yes. The definitions, and the explanations of the distinction between the terms, are quite clear. However, in setting out and explaining the new terminology, it would be a shame to lose sight of the more simplistic concepts of 'positive' and 'negative' assurance, which are probably more meaningful to the non-accountant practitioner.

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

The performance and value for money audit work of the WAO is primarily concerned with providing reasonable assurance, and we find the principles underpinning the proposed ISAE 3000 to be quite appropriate to the WAO's reasonable assurance engagements. However, we consider that many of the more detailed, prescriptive requirements to be inappropriate (such as the requirements for written representations – paragraphs 47 to 51) and, in terms of the objective of the standard, consider some of the requirements to be detrimental to the efficiency and effectiveness of our work (such as the requirements for the content of assurance reports (paragraph 60).

The WAO's grant certification work is now conducted under a limited assurance regime and, subject to the comments above in relation to the standard's principles and detailed requirements, we have no reason to believe that it is not also appropriate to limited assurance engagements.

**(c) Should the proposed ISAE 3000 require, for limited assurance, the practitioner to obtain an understanding of internal control over the preparation of the subject matter information when relevant to the underlying subject matter and other engagement circumstances?**

The answer to this will depend on the relevant circumstances and, if the answer to this question is to be "yes", then the exposure draft will need to be clear as to what those relevant circumstances might be.

One rationale for adopting a limited assurance approach might be that it is unlikely that the system of internal controls can be relied upon. In these circumstances, it seems logical that the practitioner needs to gain some understanding of the system to be able to form such a conclusion.

The WAO's new strategy for grants certification does not require auditors to gain an understanding of the internal control systems that support the construction of a grants claim. Instead, the grants auditor vouches all / a sample of the transactions that comprise the claim back to source documentation.

**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. Given that “attestation engagements” and “direct engagements”, as defined by the proposed ISAE 3000, both provide assurance, the proposed changes in terminology are helpful.

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

Yes. The explanations and distinctions are quite clear.

- (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 parts of proposed ISAE 3000 that consider the issue, for direct engagements, of the practitioner’s conclusion being the subject matter information is a little unclear. For example, in a direct engagement when the practitioner’s conclusion is the subject matter information, the concept and definition of a misstatement do not seem appropriate, particularly where the practitioner determines the applicable criteria. But if the practitioner’s objective in paragraph 6(a) is deemed to be appropriate, the user should be concerned about what assurance independent of the practitioner there is that the subject matter information (ie the practitioner’s conclusion) is free of material misstatement. The proposed ISAE 3000 could be clearer about how this assurance independent of the practitioner can be achieved.

- (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. The range of circumstances in which the practitioner should select the criteria seems sufficiently comprehensive. Understanding of suitable criteria might be improved if the explanatory notes of the proposed ISAE 3000 could refer to, or give examples of, the different types of criteria that might be

suitable for attestation engagements, as well as direct engagements.

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

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

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

**(b) Is the requirement, in the case of limited assurance engagements, to state that the practitioner's procedures are more limited than for a reasonable assurance engagement and consequently they do not enable the practitioner to obtain the assurance necessary to become aware of all significant matters that might be identified in a reasonable assurance engagement, appropriate?**

Yes, although the exposure draft could be clearer in defining the factors that distinguish a limited assurance engagement from a reasonable assurance engagement. For example, is it always the case that the practitioner's procedures for a limited assurance engagement will be 'more limited' than for a (comparable) reasonable assurance engagement? There might be circumstances where we seek to provide reasonable assurance, but that the reasonable assurance needs to be heavily qualified because of limitations, for example, in the robustness of the evidence to support the conclusion.

If it is solely the extent of the limitations of the practitioner's procedures that differentiates between a reasonable assurance engagement and a limited assurance engagement, then perhaps the exposure draft needs to be clearer in this regard. In these circumstances, consideration might also be given as to whether the limitations of the practitioner's procedures are determined by the practitioner (ie the limitations are by design) or are caused by factors outside the practitioner's control (ie the limitations are by default).

**(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?**

It could be difficult to specify requirements that would be applicable to the circumstances of all limited assurance engagements. Given that the proposed ISAE 3000 is intended to be a principles-based standard, it would be better to ensure that the standard is crystal-clear about the need for, and purpose of, the summary of the practitioner's procedures ie so that the user is absolutely clear about the robustness of the evidence base on which the conclusions are drawn and, accordingly, the extent to which the user can rely on the conclusions. This principle would apply equally to both limited assurance engagements and reasonable assurance engagements.

The wording of this particular question suggests the need for greater clarity about whether the more prescriptive elements of the exposure draft represent 'requirements' that must be complied with or 'guidance' that may be followed.

- 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, although a "based on the procedures performed" type qualification should apply equally (implicitly, if not explicitly) to the practitioner's conclusion in a reasonable assurance engagement. The answers to Qs 4(a) and 4(c) are also relevant here as, in reading the practitioner's conclusion, for both limited and reasonable assurance engagements, the user needs to have a clear understanding of the robustness of the evidence base that provides the basis of the assurance given.

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

- (a) Do respondents agree with the approach taken in proposed ISAE 3000 regarding application of the standard by competent practitioners other than professional accountants in public practice?**

Yes. We very much welcome the IAASB's conclusion (as articulated on page 10 of the explanatory notes) that the proposed ISAE 3000 should be written to include application by practitioners other than professional accountants in public practice. The WAO's Performance Audit Practice is resourced by practitioners drawn from a range a disciplines, and includes only a small proportion of professional accountants in public practice. Adoption of the standard by the Auditor General for Wales would require adherence by all performance and value for money audit practitioners, employed by or contracted to the Auditor general, not just by those who are professionally qualified accountants.

However, the exposure draft reads like it was written by professional accountants for professional accountants. There are a wide range of assurance engagements in the public sector that are very different from traditional financial statement audit engagements. To be relevant and meaningful, therefore, the standard needs to be expressed and explained in terms that will be understood easily by non-audit practitioners.

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

Yes, although further clarification of the differences between the ‘practitioner’ in an attestation engagement and a ‘practitioner’ in a direct engagement (where the practitioner is / can also be the measurer/evaluator) would be beneficial. The roles and responsibilities diagram in the Appendix on page 75 of the exposure draft is helpful, but it only illustrates the roles in respect of an attestation engagement. It would be helpful if there was a separate diagram to depict respective roles and responsibilities in respect direct engagements.

**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.**

Most of the ‘assurance engagements other than audits or reviews of historical financial information’ carried out by UK public audit bodies are ‘direct engagements’ that seek to provide ‘reasonable assurance’. From the WAO’s perspective, therefore, the proposed ISAE 3000 is applicable to our performance audit practice. The WAO’s grants certification work is carried out under a limited assurance regime and ISAE 3000 also applies to this aspect of our work.

However, in promoting detailed and prescriptive requirements, the proposed ISAE 3000 does not seem to recognise the wide range of engagements carried out in the public sector, which would suggest that an approach based on principles, rather than prescribed practices, would be most appropriate.

With regard to the question about “whether the special considerations in the public sector environment have been dealt with appropriately in the proposed ISAE”, it was difficult to find in the exposure draft where these special considerations were set out, although they are alluded to in different places. If consideration of the application of the proposed ISAE to the public sector is deemed to be important (which, of course, it is), then the special considerations in the public sector

environment could be set out more clearly, perhaps under a separate heading in the explanatory notes.

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

No comment.

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

No comment.

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

The WAO is in the process of finalising a major overhaul of its overarching Performance Audit Delivery Manual. It is reassuring that many of the principles underpinning the proposed ISAE have already been embedded in the revised Manual, and we think it should be relatively easy to incorporate the other key elements of the Standard. The WAO had also anticipated the requirements of ISAE 3000 in the development of a new strategy to underpin its grants certification work.

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

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