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IAASB Exposure Draft on ISAE 3000 on Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

FSR – danske revisorer the Danish Institute of Professional Accountants is pleased to accept your invitation to comment on the IAASB Proposed ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

FSR – danske revisorer welcomes IAASBs initiative to revise the basic assurance standard for other assurance engagements than audits and reviews. ISAE 3000 is important considering the increased demand for reporting on non-financial information. The users need reliable information and therefore an assurance report on such information. The fact that an increasing number of entities can elect not to have their financial statements audited underlines the urgency for an update of the extant ISAE 3000 in order to secure that the profession remains a important player in the market for assurance services.

Main Comments

Scope of Standard

ISAE 3000 should be a stand-alone standard that covers a broad range of assurance engagements, regardless of the existence of underlying standards for specific subject matters.

To fulfil this objective it is among other things important that ISAE 3000 includes a pervasive description of the differences in assurance obtained in a reasonable assurance versus a limited assurance engagement, as this difference in essence should be the same regardless of the type of subject matter or subject matter information on which assurance is provided. If specific subject matter standards elaborates on the differences in reasonable versus limited assurance engagements this elaboration should be specifically related to the subject matter in question, and should not contradict or introduce changes to the fundamental differences as described in ISAE 3000 (and the framework).

Focus should be placed on differences in procedures to be performed as well as evidence to be obtained, and thus form a solid basis for the practitioners work

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and improve the understanding of the difference in assurance obtained and expressed in the practitioners report.

Side 2

Being an umbrella standard for a broad range of assurance engagements it is also important that ISAE 3000 in all relevant areas focuses on both quantifiable and qualitative information. Considering that practitioners (as well as users) have experience with assurance engagements involving quantifiable information, it is important that detailed guidance is given in regards to how assurance should be given on qualitative information, and how this deviates from providing assurance on quantifiable information. Areas such as materiality and obtaining evidence are typical matters for which more guidelines are needed in relation to providing assurance on non-financial qualitative information.

Being an umbrella standard ISAE 3000 should provide examples of generic practitioners reports relating to the 4 different categories of engagements, that is direct and indirect engagements with limited and reasonable assurance.

Direct engagements

The revised ISAE 3000, supported by the explanatory memorandum and the changes to the framework, introduces in our opinion a "new" type of assurance engagement, as it seems to legitimize the practitioner to evaluate and measure the subject matter information and thereafter obtain evidence and provide assurance on the subject matter information prepared by the practitioner. According to the application material as well as the explanatory memorandum, evaluation and measurement against criteria could be equated to compilation of the subject matter information of e.g. a green house gas statement.

Although we see the advantage for the profession in enlarging the potential for new business by introducing a more liberal view on threats to independence regarding assurance engagements, we find it extremely important, that the following issues are thoroughly clarified. This includes:

- Guidance on the limits of the liberalization of the requirements, which should be made evident to the practitioners as well as the public, including the characteristics of and examples on engagements which can be performed as direct assurance engagements.
- The possible effect on other assurance engagement standards as well as IFACs Code of Ethics, including audit and review engagements.

- Possible negative effect of the public's view on the profession.

Side 3

Relationships with ISAs

The relationship between ISAE 3000 and the standards on audit or review of historical financial information should be clarified, so that standards are applied consistently by different practitioners on the same type of subject matter. This is especially relevant when the ISAs may be applicable to parts of the engagement while ISAE 3000 would cover the remaining part of the information.

Specific subject matter standards

Specific subject matters may need specific guidelines in order to apply the requirements in ISAE 3000. Such additional guidelines should be included in separate standards under the umbrella of ISAE 3000. The primary object of for specific subject matter standards should be to facilitate and ensure a consistent application of the requirements in ISAE 3000 on the subject matter in question.

Assuming ISAE 3000 fulfils its objective as being a stand alone standard, specific subject matter standards should primarily meet the increased need for consistent application of the requirements in ISAE 3000 in relation to specific subject matters at the time when such subject matters become or could be expected to become commonly reported on to the public.

The specific subject matter standards should in our opinion focus on specific inherent risks related to the specific subject matter and how these risks could be addressed. The specific subject matter standards should provide examples of relevant procedures to be considered, and should in this relation address reasonable as well as limited assurance engagements.

Examples on assurance reports could preferably also be included in the specific subject matter standards.

Specific subject matter standards could contribute to bring public attention to the professions competence in providing assurance on other subject matters and specifically other subject matter information than historical financial information.

Use of terms and glossary (in general)

Terms and wording should be applied consistently in all of IAASBs standards regardless of the type of engagement. Any differences between the terms used should be justified.

Although the glossary isn't an authoritative document it should be used as a reference. This would facilitate consistent wording/understanding (also in translations) and reduce the number of repetitions and thereby pages in the individual standards. By doing so the specific subject matter standards would only need to include definition of terms relevant to the individual subject matter. E.g., ISAE 3410 would only include definitions of terms in Green House Gas statements.

Side 4

Assurance report

The assurance report in ISAE 3000 should be understandable and should clearly reflect the level of assurance in the conclusion. In general, the concept of a limited assurance engagement, including the negative wording of the conclusion, is difficult to understand for the users, and contributes to increasing the expectation gap. We believe that the best way to make the concept of limited assurance understandable is to describe the scope of procedures and clarify the limitations of these procedures compared to a reasonable assurance engagement, i.e. that the procedures performed give less assurance than procedures performed in a reasonable assurance engagement.

This would in our opinion reduce the need for reflecting the different level of assurance in the conclusion, since the negative form seems to be difficult to understand.

This doesn't necessarily mean that we are in favour of a comprehensive generic description in the auditor's report. Generic descriptions explaining the difference in the levels of assurance could preferably be made available on the web and referred to in the report.

In general, we would recommend that the structure and wording of the practitioners' reports regardless of type of engagement and subject matter is more consistent. This can be achieved by use of similar titles, sequences and contents whenever relevant. This will contribute to the transparency of the practitioners various reports, facilitate comparison and thereby contribute to the users understanding of the practitioners work and responsibility and of the assurance provided.

Specifically we would recommend that emphasis of matters paragraphs and other matters paragraphs are used in the same way as in an Auditors Report (cf. ISA 705).

Effective date

Side 5

Due to the importance of this standard all efforts should be made to complete this within reasonable time. An appropriate effective date would be 12 max 15 months after IAASBs approval. Specific subject matter standards under the ISAE 3000 umbrella should not be completed or made effective prior to ISAE 3000.

For further information please contact Lisbeth Kjersgaard, tel. + 45 3369 1053 or via e-mail: lik@fsr.dk

Yours faithfully

FSR – danske revisorer

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?

Side 6

It is important that ISAE 3000 is a stand alone standard and completely operative regardless of the existence of an underlying specific subject matter standard. The objective of specific subject matter standards under the umbrella of ISAE 3000 should be to facilitate and ensure consistent application of the requirements in ISAE 3000 on a specific subject matter or subject matter information.

This issue can be exemplified by comparing the proposed ISAE 3000 with the proposed ISAE 3410. Several chapters and paragraphs in ISAE 3410 are in our opinion general requirements in relation to assurance engagements, and should as such be included in ISAE 3000, while ISAE 3410 only should include specific guidelines in order to facilitate the proper application of ISAE 3000, when the subject matter information to be reported in is a Green House Gas Statement.

The inconsistency between the general standard and the specific subject matter standard is underlined by the number of requirements in the two standards. (ISAE 3000: 69 requirements, ISAE 3410: 75 requirements).

Limited versus reasonable assurance

The principal difference between limited and reasonable assurance should be explained more thoroughly in ISAE 3000 and only in this standard. Taking up the principal discussion in each specific subject matter standard will only contribute to confusion among practitioners as well as users of assurance reports.

We recognize the general description in ISAE 3000 paragraph 8(a)(i) b. of a limited assurance engagement, but foresee difficulties in explaining this description to users of a limited assurance report. In our opinion the differences in procedures performed is the best and most educational way to clarify for the users of our reports the differences between the level of assurance obtained and expressed.

To improve the understanding of the difference it is important that the standard in each area distinguishes between the 2 types of engagements and in this

connection underline the areas where requirements are the same regardless of the level of assurance to be obtained.

Side 7

Limited assurance- definition

The level of assurance obtained in a limited assurance engagement is according to A2 dependent on the practitioners judgement of what could be considered meaningful to the intended user. This is in our opinion a new and for the auditor rather risky change, In addition it is not consistent with the definition of the level of assurance obtained in a limited assurance engagement performed in accordance with the revised ISRE 2400.

The new (additional) criteria for deciding the level of assurance to be obtained in a limited assurance engagement is in our opinion a change to the fundamental concept of assurance engagements, and should as not be introduced in a arbitrary standard, but rather introduced through a transparent process where all relevant effects on the framework, other assurance standards etc could be analysed and discussed thoroughly.

We strongly urge the Board not to change the existing definition, where the difference in level of assurance obtained in a limited versus a reasonable assurance engagement are related to the differences in the nature timing and extent of evidence – gathering procedures.

Evidence

A substantial number of engagements comprised by ISAE 3000 will relate to qualitative subject matters. ISAE 3000 should where relevant increase focus on the differences in characteristics of evidence expected to be obtained in relation to qualitative information versus the evidence expected to be obtain in relation to quantitative information. The characteristics of the evidence expected to be obtained by the practitioners could be expanded in specific subject matter standards.

Question 2. With respect to levels of assurance:

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

No – we refer to question 1.

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

Side 8

In our opinion ISAE 3000 should form a solid basis for the performance of other assurance engagements, and in principle without the need for any further requirements. The extent of requirements and guidelines in ISAE 3410 compared to ISAE 3000 is the most evident sign of that the proposed ISAE 3000 does not fulfilled the main objective i.e. to act as a stand alone standard

2 (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 practitioner shall obtain sufficient understanding of the engagement circumstances to plan and perform the engagement effectively. We doubt this is possible without having at least some knowledge of internal control related to the preparation of the subject matter information. This relates especially to the overall control environment and the information systems relevant to the subject matter information. Such items may also be relevant in relation to the considerations related to acceptance and continuance of engagements.

In this context it seems relevant that as in the proposed ISRE 2400 the practitioner shall not accept an engagement if the preliminary understanding of the engagement circumstances indicates that the entity's accounting systems is in such a bad shape that information needed to perform the review is likely to be unavailable or unreliable. Such a conclusion as required in ISRE 2400 assume at least a minimum knowledge of the internal controls, and a similar criteria seems relevant when accepting a assurance engagement to be performed in accordance with ISAE 3000.

Question 3. With respect to attestation and direct engagements:

3 (a) Do respondents agree with the proposed changes in terminology from "assertions-based engagements" to "attestation

engagements” as well as those from “direct-reporting engagements” to “direct engagements”?

Side 9

We don't find the term appropriate as the term attestation in Danish will indicate that the practitioner is given a "stamp of approval" which is not exactly a term we would like to have associated with our assurance report.

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

No – The difference between the 2 types of engagements could preferably be made more apparent. To improve the understanding of the difference it is important that the standard in each area distinguishes between the 2 types of engagements and in this connection underlines the areas where the requirements are the same regardless of the type of engagement.

3 (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))?

Yes

(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.

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

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

Side 10

Yes it is a significant factor which in our opinion can make the obtained level of assurance understandable for the users. See also our main comments in the first part of this letter.

4 (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 see 4 (a)

4 (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?

We believe that the best way to make the concept of limited assurance understandable is to describe the scope of procedures and clarify the limitations of these procedures compared to a reasonable assurance engagement, i.e. that the procedures performed give less assurance than procedures performed in a reasonable assurance engagement. Generic descriptions explaining this difference could preferably be made available on the web and referred to in the practitioners report.

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?

See our main comments in the first part of this letter: "assurance report"

Question 6. With respect to those applying the standard:

6 (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?

Side 11

We suppose it is not possible to limit the use of ISAE 3000 to professional accountants being members of IFAC. For this reason alone we support that the standard formally can be applied by others, and by so doing, commit these "others" to comply with the IESBA Code of Ethics and ISQC 1.

Although ISAE 3000 is supposed to be a stand alone standard we agree that ISQC 1 and the IESBA Code of Ethics should only be referred to, and not integrated. And we find it essential, as is also included in the proposed ISAE 3000, that it should be apparent from the practitioner's report that the IESBA Code of Ethics and ISQC1 have been adhered to.

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

No comments

Comments on Other Matters

None