



International Federation of Accountants

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September 1, 2011

IAASB Technical Director

Dear James,

Small and Medium Practices (SMP) Committee Comments on Proposed International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.

INTRODUCTION

The SMP Committee is pleased to provide comment to the IAASB on the Proposed ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.

As exemption from audit becomes more prevalent in many jurisdictions, the market for assurance services other than audit is likely to grow, and so the development of standards over other assurance and related services will assume increasing importance for SMPs and SMEs. We therefore welcome the IAASB project to revise and update ISAE 3000, alongside similar projects to revise and update ISRE 2400, *Engagements to Review Historical Financial Statements*, and ISRS 4410, *Compilation Engagements*.

BASIS FOR THIS SUBMISSION

The SMP Committee is charged with identifying and representing the needs of its constituents and, where applicable, to give consideration to relevant issues pertaining to small- and medium-sized entities (SMEs). The constituents of the SMP Committee are small and medium-sized practices (SMPs) who provide accounting, assurance and business advisory services principally, but not exclusively, to clients who are SMEs.

Members of the SMP Committee boast substantial experience within the accounting profession, especially in dealing with issues pertaining to SMEs, and are drawn from IFAC member bodies from 18 countries from all regions of the world. Given such diversity, compiling a single response that wholly satisfies all of our members is impracticable. Therefore, when formulating its views, the Committee has sought to take a global, public interest position. This perspective may not always be consistent with individual national laws, regulations and interests.

GENERAL COMMENTS

We support the development of an overarching, stand-alone, principles-based ISAE 3000, which can be supplemented by subject matter specific ISAEs where appropriate. We recognize that ISAE 3000 needs to be designed to address a wide range of engagements, including some which may not even be contemplated at this time. Inevitably, such a

project involves challenges of scalability and achieving a balance between principles and requirements.

Given the variety of engagements that will be performed under this standard, we commend the IAASB on recognizing and largely addressing these challenges in developing the proposed standard.

However, we also firmly believe that practical understanding and consistent application of the standard would be facilitated by the inclusion of appendices containing illustrative reports, in particular to illustrate the wording of the opinion in attestation and direct assurance engagements, and/or examples of types of engagements. Whilst we appreciate the view that inclusion of illustrative reports and/or examples of engagements may be perceived by some to limit the standard to those types of engagements, we believe that the benefits of including such materials far outweigh this potential risk.

We are also unclear as to how a practitioner would ever issue an adverse report in a direct engagement. Since the practitioner is reporting on information that they have measured or evaluated, we believe that if they were to identify a material misstatement, they would correct the misstatement before reporting, thus an adverse report would never be issued. If this interpretation is incorrect, application guidance to explain situations in which an adverse report might be issued would be beneficial to practitioners.

We also feel it would be helpful to include application guidance explaining how practitioners could be considered to be independent in a direct engagement, given that they are forming an opinion and reporting on information that they have measured or evaluated. In particular, such guidance may usefully explain how this notion in a direct engagement differs from a historical financial statement audit engagement, whereby the auditor is not permitted to opine on financial statements that they have prepared.

We would also encourage the IAASB to consider developing application guidance to clarify the inter-relationship between ISAE 3000 and ISA 805 (and/or ISRE 2400). While we agree with the assertion in the Explanatory Memorandum to the ED that a “bright line” distinction is not appropriate, and that choosing the right standard is a matter of professional judgment, we feel further guidance about the inter-relationship between the standards would be helpful.

SPECIFIC COMMENTS

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

Mindful that the standard is intended as a stand-alone, overarching standard applicable to a broad range of engagements, supported where necessary by further subject-specific standards, we believe that the IAASB has, as a whole, achieved an appropriate balance between flexibility and specificity of requirements.

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?

We believe the respective definitions suitably distinguish between reasonable assurance and limited assurance engagements, though they could be further enhanced by the use of comparative tables, similar to those used in proposed ISAE 3410, *Assurance on Greenhouse Gas Statements*.

We feel that further guidance around the definition of reasonable assurance, including the notion of a “high but not absolute” level of assurance, would be helpful to users, in particular for those (many) SMPs with little experience of audit. We also feel references within the definitions to the form of report are irrelevant to defining the level of assurance and thus unnecessarily add to their length.

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

Generally, yes, but several of the requirements do appear to either:

- i) place unrealistic expectations on the practitioner, for example:
 - paragraph 45(a) (part), the requirement for the practitioner to “evaluate whether the practitioner’s expert has the necessary competence, capabilities and objectivity for the practitioner’s purposes.” This could more reasonably be replaced by a minimum requirement (which, in some circumstances, may need to be exceeded) for the practitioner to “consider” the competence, capabilities, objectivity and adequacy of the work of the practitioner’s expert. Likewise, in paragraph 45(b), for a limited assurance engagement it should be sufficient for the practitioner to become familiar with the field of expertise.

or

- ii) include wording that contributes negligible value to the standard, for example:
 - paragraph 39 “The practitioner shall apply assurance skills and techniques as part of an iterative, systematic engagement process.”
 - paragraph 44 (strikethrough identifies material which may be excessive) “The practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained ~~in the context of the engagement (including whether it is a reasonable assurance or limited assurance engagement)~~ and, if necessary in the circumstances, attempt to obtain further evidence. ~~The practitioner shall consider all relevant evidence, regardless of whether it appears to corroborate or to contradict the measurement or evaluation of the underlying subject matter against the applicable criteria.~~ If the practitioner is unable to obtain necessary further evidence, the practitioner shall consider the implications for the practitioner’s conclusion ~~in paragraph 56.~~”

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

We believe it is important for ISAE 3000 (and any other limited assurance engagement standards that may be developed) to clearly differentiate the work effort

required in limited assurance engagements from that required in reasonable assurance engagements. This is particularly important in the practitioner's approach to risk. Thus it needs to be clear that, whereas in a reasonable assurance engagement the practitioner is required to have an understanding of internal control over the preparation of the subject matter information (paragraph 37), in a limited assurance engagement such understanding should, in our opinion, only be to the extent sufficient to enable meaningful consideration of the risks of material misstatement (paragraph 42(a)).

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”?

On balance, yes. However, we caution about possible confusion in those jurisdictions where the term “attestation” is either uncommon, or is already commonplace and has wider meaning than that defined in the proposed standard. Furthermore, the intended change in meaning that the standard is trying to convey by using “attestation” in place of “assurance” may be lost in translation.

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

We generally believe the definitions are appropriate. However as stated above, believe that the concept of a direct engagement could be enhanced by the inclusion of illustrative reports and/or examples of types of such engagements.

We believe the differences between direct and attestation engagements could be more clearly explained, perhaps by using a tabular format similar to paragraph 83 of the proposed Assurance Framework. The description of the differences should clearly identify:

- why there is a need to distinguish between the two engagements;
- the differences between direct and attestation engagements for reasonable assurance and limited assurance, respectively; and
- the differences between direct and attestation engagements in terms of:
 - the nature of the risks;
 - requirements for obtaining evidence;
 - procedures for performing the engagement; and
 - reporting.

(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))?

We believe the practitioner's objective is appropriate. However, if "misstatement" is to be a useful concept for a direct engagement, we feel the term "proper measurement or evaluation" within the definition of misstatement should be further developed, with due regard to materiality and information uncertainty.

(ii) In some direct engagements the practitioner may select or develop the applicable criteria. Do respondents believe the requirements and guidance in proposed ISAE 3000 appropriately address such circumstances?

Yes.

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

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

Yes. Additionally, users need to be informed not only of 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 welcome but, in order to adequately convey the value of assurance provided, more could be done to describe practitioner competencies.

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

We believe it is essential that limited assurance reports state that the practitioner's procedures for a limited assurance engagement are more limited than for a reasonable assurance engagement. However, it might also be preferable to state what has been done rather than what has not been done. This would communicate the value of the engagement and avoid the assumption that users will understand what a reasonable assurance engagement is in the first instance. Furthermore, in the possible case of hybrid engagements, where both reasonable and limited assurance is conveyed in the same report, this would facilitate clearer communication of the practitioner's procedures.

(c) Should further requirements or guidance be included regarding the level of detail needed for the summary of the practitioner's procedures in a limited assurance engagement?

As far as we can see, the summary of the practitioner's procedures would be presented without the context of the risks involved in the engagement, which could mislead or confuse the user. For example, to the extent that individual practitioners may perform different procedures for a similar engagement, and/or summarize those procedures differently in their report, the user may conclude that the report that lists more procedures provides a higher level of assurance, when in reality the practitioners performed the same extent of procedures and obtained the same degree of assurance.

Mindful that ISAE 3000 is an overarching standard, we accept that further specific requirements and/or guidance related to the summary of procedures may best be dealt with in subject-specific ISAEs. However, we do suggest that ISAE 3000 requires the report to include a statement that the practitioner's procedures are designed to address the risk involved in the engagement. Furthermore, we reiterate our general comments regarding illustrative reports, in which example summaries of procedures may usefully illustrate an appropriate level of detail without necessarily becoming de facto boilerplates.

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?***

In line with our comment letter of May 20, 2011¹ in response to the Proposed International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*, on balance we feel the negative opinion suitably conveys the level of assurance that is being given. However, in situations where a modified report is considered appropriate by the practitioner, we feel the resultant "double negative" in the report may be difficult for users to understand and could also pose translation issues.

Also, although the exposure draft addresses modified reports, it only sets requirements for qualifications. We feel it would be helpful for the standard to also illustrate how the practitioner may include an emphasis of matter paragraph in the report.

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 are pleased that the standard includes requirements that the application of the standard by non-accountants be subject to quality control policies and procedures at least as demanding as ISQC 1 and ethical requirements in line with Parts A and B of the IESBA Code. However, we question how compliance with such requirements can be enforced.

In reality, the problem - which is especially pronounced for SMPs - is that the standard could be applied by those purporting to be accountants but who generally provide an inferior service than that provided by professional accountants in public practice. Without, for example, a requirement for such firms or individuals to enrol on professional registers and be subject to some degree of public (or at least independent) oversight, there is a risk that the quality of service would be misrepresented.

¹ See <http://web.ifac.org/media/exposure-draft-comments/153/4997-20110512-smpc-commentlett.pdf>

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

Yes.

OTHER COMMENTS

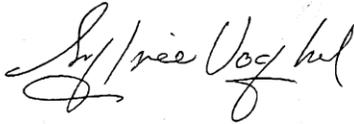
Given the overarching nature of the standard, we believe that issuance of the final revised ISAE 3000, together with its proposed effective date, should not supersede the issuance and effective date of other ISAEs, thereby allowing for other ISAEs to be fully aligned with ISAE 3000. Subject to this, we believe the proposed effective date for the final revised ISAE 3000, namely 12–15 months after approval of the final standard but with earlier application permitted, is acceptable.

CONCLUDING COMMENTS

We hope the IAASB finds this letter helpful in finalizing the revised standard. In turn, we are committed to helping the IAASB in whatever way we can to assist in the implementation of the standard and so we look forward to strengthening the dialogue between us.

Please do not hesitate to contact me should you wish to discuss matters raised in this submission.

Sincerely,

A handwritten signature in black ink, appearing to read "Sylvie Voghel". The signature is written in a cursive style with a large initial 'S' and 'V'.

Sylvie Voghel,
Chair, SMP Committee