

September 1, 2011

Mr. James Gunn  
Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
545 Fifth Avenue – 14<sup>th</sup> Floor  
New York, NY 10017  
U.S.A.

Dear Mr. Gunn,

**Re: Proposed ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information**

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide its comments on the proposed ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information including Proposed Consequential Amendments to the International Framework for Assurance Engagements* and to the *International Assurance Standard ISAE 3402 (Assurance Reports on Controls at a Service Organization)* and the *Proposed ISAE 3410 (Assurance Engagements on Greenhouse Gas Statements)*. In developing this response, we considered comments provided to us by interested parties in Canada. Our comments are set out below under the following main headings:

- A. Overall Comments
- B. Request for Specific Comments
- C. Request for Comments on Other Matters
- D. Additional Comments

## A. OVERALL COMMENTS

We have reviewed the ISAE 3000 proposals in light of Canada's extensive experience with assurance engagements in general, including in the very specialized area of direct engagements. Canada is one of the few countries in the world whose legislative auditors base their performance audit reports (direct engagements) on assurance standards. Canadian practice for performing assurance engagements has evolved over the years and has seen increased usage to meet a broad range of stakeholder needs. Adherence to relevant, robust principles-based professional standards with sufficient flexibility for differing circumstances is critical to ensuring consistent, credible, high quality engagements. Our response reflects broad level consultations with very experienced leaders in the profession from across the country, as well as from the highest ranks in public sector auditing, both federally and provincially.

The proposed ISAE 3000 (Revised) is timely since AASB Canada is looking at updating its assurance standards, and is considering adopting the amended ISAE. Our objective is to ensure new guidance is comprehensive and robust, can stand-alone (without the need to refer to Canadian Auditing Standards (adopted International Standards on Auditing) and deals with all matters of significance raised by Canadian stakeholders.

Overall, the proposed ISAE provides useful guidance and would address the needs of Canadian practitioners for attestation engagements, both in the private and public sectors. The draft ISAE is appropriately principles based and meets, on balance, the fundamentals of a stand-alone and well integrated standard. Of key importance is the embedded flexibility backed by reliance on professional judgment and quality control to accommodate different circumstances, including in the application material presented.

While the AASB is very supportive of the draft ISAE as it relates to attestation engagements, we do have concerns regarding the proposed approach to direct engagements. We have identified two significant areas that, in our view, would make it difficult to adopt the proposed ISAE in Canada for use in performing direct engagements.

### *1. Definition of misstatement and objective for direct engagements*

The proposed standard suggests that the objective for direct engagements is to assess whether the subject matter information (which the practitioner creates) is free of material misstatement (see paragraphs 6 and A5).

Some direct engagements performed in Canada result in a short form reasonable assurance (audit) report. In these cases, the subject matter information provided consists only of the practitioner's report. That report makes reference to the subject matter of the engagement, the criteria used to evaluate whether that subject matter conforms in all material respects with the applicable criteria, and the auditor's conclusion thereon. In this case, there is no subject matter information provided that can be "misstated." If there has been a material non-compliance with criteria not identified by the practitioner, that circumstance represents an audit failure, not a misstatement.

Further, there are direct engagements performed in Canada that result in a long form report. This type of report contains subject matter information beyond that which would be contained in a short form report. The practitioner's objective is, nevertheless, the same: to obtain sufficient appropriate evidence to support a conclusion on whether the underlying subject matter conforms in all material respects with the applicable criteria. For these engagements, in our view, it is neither practicable nor useful for practitioners to try to distinguish between a misstatement (the failure to present information properly) and an audit failure (i.e., a failure to obtain sufficient appropriate evidence to support the contents of the report that results in an incorrect conclusion). In our view, the attempt in the draft ISAE to make the concept of "misstatements" apply to direct engagements, makes the standard overly complex and unclear and not reflective of how direct engagements are performed in practice.

More specifically, the activities of preparation and audit (or review) are performed simultaneously. Measurement and evaluation of the subject matter is not a separate part of the direct engagement, but rather an intrinsic part of the audit or review. For example, direct engagements would not involve the use of two separate sets of personnel (one to perform the preparation and presentation work and the other to perform the audit and review work) as suggested in paragraph A68.

As a result, in the AASB's view, the draft ISAE, as it pertains to direct engagements, does not reflect how direct engagements are, and should be, performed in practice. Given the importance of direct engagements in the public sector, and growing interest in these engagements in the private sector, this is a pervasive issue.

In Appendix I attached, we have suggested wording changes to the draft ISAE that would address this issue.

## 2. *Acceptance and Continuance—Preconditions (Public sector engagements)*

Based on experience in Canada and given the role and mandate of legislative auditors, for the public sector engagements it is often the case that not all preconditions for an audit as described in paragraphs 20 and 21 would be present prior to commencing the audit. Work is often required after the audit is started to deal with matters that include whether:

- roles and responsibilities of the appropriate parties are suitable in the circumstances (20(a));
- the underlying subject matter is appropriate (20(b)(i));
- criteria to be applied in the preparation of the subject matter information are suitable (20(b)(ii)); and
- the practitioner will have access to the evidence needed to support the practitioner's conclusion (20(b)(iii)).

We note that the IAASB recognizes that assurance engagements performed in the public sector face some unique challenges, and has included guidance in paragraph A33 to address

some of them. However, without changes to the standard, practitioners in the public sector would have difficulty complying with the pre-condition requirements as currently proposed. In Appendix 1 attached, we have suggested wording changes to the draft ISAE that would address this issue. (See suggested new paragraphs 18(d) and 20(c)).

## **B. REQUEST FOR SPECIFIC COMMENTS**

Our responses to the matters on which you specifically requested comments are set out below.

### **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?**

#### *Attestation Engagements*

The AASB believes that the proposed ISAE 3000 is a significant step forward in enabling consistent high quality assurance engagements with an appropriate level of flexibility. For attestation engagements, in our view the proposed ISAE meets, on balance, the fundamentals of a stand-alone and well-integrated standard that responds to the needs of different users. More specifically, the AASB notes the concise and accurate integration of requirements respecting planning, the use of experts and documentation. The AASB also finds that quality control is well defined; particularly where the practitioner's responsibilities are concerned (see paragraphs 29 to 32).

The proposed standard is principles based and allows significant professional judgment in its interpretation and application. While this is appropriate, ensuring access to proper non-authoritative guidance material will be key to the successful execution and attainment of consistent high quality assurance engagements. We suggest that it should be a high priority for the IAASB to encourage countries adopting the proposed standard, as amended, in final form to develop appropriate non-authoritative guidance for various types of engagements.

#### *Direct Engagements*

##### Concept of misstatements

As noted above, for direct engagements the AASB is concerned that the proposed ISAE 3000 as written will hinder the consistent completion of high quality assurance audits. The key issue is the definition of "misstatements". In proposed Para 8(n), the definition of misstatement states that it applies to all assurance engagements, including those where the practitioner's conclusion is the subject matter information (direct engagements). It further states that misstatements can be intentional, unintentional, and include omissions. In the AASB's view, in a direct engagement, given the practitioner evaluates the subject matter based on criteria; the concept of "error" differs.

The intent of the proposed standard is that it be principle based and applicable to a wide range of assurance engagements. To achieve this goal, the AASB suggests that a new term “deviations” be added in the definitions section that would apply to direct engagements only and would be defined as instances when the underlying subject matter does not conform with the applicable criteria. Misstatements would then only apply to attestation engagements.

In Appendix 1, we have suggested wording changes to the definitions paragraph of the draft ISAE that would address these matters.

There are also other areas in the definitions’ section of the proposed standard that make requirements for direct engagements unclear and would benefit from greater clarity and, the AASB believes, would enable more consistent application among practitioners. More specifically, it is difficult in the proposed standard to clearly differentiate subject matter information and evidence because of similar terminology—it would be important for enhanced understanding of the standard to clarify terms in the definition or eliminate one of them if they are indeed the same.

Similarly, the AASB believes that the application and other explanatory material paragraphs of the standard should expand further on the definitions and distinction between subject matter and subject matter information, with concrete examples. In the view of the AASB, the terminology is difficult to comprehend for some users and clarification would be useful.

#### Preconditions and continuance provisions

Further, as noted earlier, for public sector practitioners the requirements to adhere to the preconditions and continuance provisions as currently laid out in the proposed standard present some real and pragmatic difficulties.

In many instances, Canadian public sector auditors will not be able to comply with the proposed ISAE because they usually need to conduct a non-trivial amount of audit work before they can establish all of the preconditions. For example, a direct engagement in the public sector could be adversarial and matters such as access to evidence may be difficult to assess in advance of the engagement. In Appendix I, we have suggested wording changes to paragraphs 18(d) and 20 (c) of the draft ISAE that would address this issue for practitioners in the public sector.

## **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 AASB agrees that the proposed ISAE appropriately deals with this matter. Non-authoritative guidance would also be helpful to aid practitioners in determining the level of assurance that would be appropriate—reasonable or limited—in differing circumstances based on stakeholder needs. Additional commentary is presented in Section C-- Requests for

Comments on Other Matters-- on the importance of education and non-authoritative guidance in support of the standard once approved in final form.

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

Yes, the requirements as they relate to the categorization of engagements as a reasonable assurance engagement and a limited assurance engagement are appropriate. The difficulty the AASB has is with the requirements for direct engagements for either reasonable assurance engagements or limited assurance engagements, particularly for misstatements and preconditions for acceptance and continuance (see 1 above and 3(c) below).

**(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?**

In our view, having a requirement for practitioners in limited assurance engagements to obtain an understanding of internal control may lead to a misperception by stakeholders that the practitioner has reviewed all key aspects of internal controls. This is more in line with attest or direct reporting engagements where a reasonable level of assurance is required. Limited assurance engagements may involve the practitioner enquiring about aspects of internal control but this would normally not be a key component of the engagement.

**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 we agree with those suggestions. In our view, the simplified terminology is clearer.

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

Yes, there is appropriate definition and clarity of the differences between attestation and direct engagements in Para 8(a)(ii).

**(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 AASB feels that the objectives and requirements over misstatements as currently written in the proposed standard are not appropriate for direct engagements where the practitioner is also the creator of subject matter information and the subject matter information represents the practitioner's conclusion(s) against specified criteria.

For direct engagements, the objective is not in the AASB view "to obtain...assurance...about whether...the subject matter information is free from material misstatement" (Para 6). Rather, the objective is to obtain reasonable assurance or limited assurance as appropriate about whether the underlying subject matter conforms in all material respects with applicable criteria thereby enabling the practitioner to make that conclusion in the practitioner's report. The proposed standard should reflect this.

Similarly, the definition of misstatement—"the difference between the subject matter information and the proper measurement or evaluation....of the underlying subject matter against the applicable criteria... including those where the practitioner's conclusion is the subject matter information. ..." is not well-suited to direct engagements. For direct engagements this would equate to performing additional procedures to ensure that an inappropriate conclusion is not rendered in the subject matter information the practitioner creates(i.e. an audit failure or review failure).

It is neither practicable nor useful for practitioners to try to distinguish between a misstatement (the failure to present information properly) and an audit failure (i.e., a failure to obtain sufficient appropriate evidence to support the contents of the report that results in an incorrect conclusion). The activities of preparation and audit (or review) are performed simultaneously. Measurement and evaluation of the subject matter is not a separate part, but rather an intrinsic part of auditing (or performing a review) in a direct assurance engagement.

The difficulties caused by making the distinction between measurement/evaluation and obtaining sufficient appropriate evidence in a direct engagement are further illustrated by paragraph A68. The paragraph suggests that involvement in these two roles can be a threat to objectivity. The paragraph then suggests that an action to reduce that threat would be to have separate assurance personnel undertake them. Thus, proposed ISAE 3000 would effectively convert a direct engagement into a facsimile of an attest engagement.

The attempt in the draft ISA to make the concept of "misstatements" apply to direct engagements, makes the standard overly complex and unclear and not reflective of how direct engagements are performed in practice.

For the standard to be meaningful to practitioners, the AASB view is that new standards for direct engagements with respect to treatment of deviations from conformance to criteria in underlying subject matter are needed. These are distinct from standards for misstatements in attest engagements.

To address this issue, Appendix 1 includes suggested amendments to the following paragraphs of the draft ISAE 3000 (Revised)

- Para 6 Objectives, ultimate objective
- Para 8 Definitions, new term “Deviations” needs to be introduced,
- Para 8(n) Definitions- Misstatements, needs to focus on attestation engagements,
- Para 8(q) Definitions- Practitioner, need to remove reference to “material misstatements” in direct engagements,
- Para 20 & Para 21 Continuance and Acceptance (acknowledge that in the public sector environment not all pre-conditions may be met for legitimate reasons and in those circumstances to continue with the engagement),
- Para 36 Materiality (additional wording needed for direct engagements),
- Para 43 Accumulating Uncorrected Misstatements (add deviations to wording),
- Para 55 Description of Applicable Criteria (additional wording needed for direct engagements),
- Para 56 Forming the Assurance Conclusion (additional wording needed for direct engagements),
- Para 59 Preparing the Assurance Report (additional wording needed for direct engagements).

**(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 AASB believes that, on balance, the proposed guidance is adequate. Please also refer to Appendix 1 and 3(c) (i) response above that refers to deviations.

**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 the AASB agrees. A summary would enable the user to put the conclusion in the appropriate context. To support consistency, guidance should be available to inform practitioners on the amount of detail needed while also appropriately differentiating between reasonable and limited assurance engagements.

**(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, this requirement is appropriate.

**(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?**

No. The AASB considers the existing proposed requirements as adequate. As for guidance, see response to Question 4 (a) above and examples would be useful.

**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 the AASB agrees with the proposition as stated in the proposed standards for attestation engagements. For direct engagements, wording as found in the attached Appendix 1 for 8(a)(i)(b) would be appropriate –“...nothing has come to the practitioner’s attention to believe that the underlying subject matter information does not conform in all material respects with the applicable criteria”.

**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, the AASB is in agreement. This reflects practice in Canada. However terms used are generally derived from ISAs and if non-accountants use this framework they may not have the depth of understanding compared to a practitioner that has audit experience. This signals the importance of internal quality control processes within practitioner organizations backed by appropriate planning and supervision with guidance and outreach to ensure proper understanding by all practitioners.

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

The AASB agrees with the definition of “practitioner” for attestation engagements but feels that for direct engagements practitioners should not be required to measure misstatements. Para 8 (q) for direct engagements states that: “ *In a direct engagement, the practitioner both measures or evaluates the underlying subject matter against the criteria and applies assurance skills and techniques to obtain reasonable assurance or limited assurance, as appropriate, about whether the outcome of this measurement or*

*evaluation is free from material misstatement*". As previously stated, in the AASB's view, there should be reference to deviations from criteria for direct engagements (see response to 3(c) above) not misstatements. Deviations are instances when the underlying subject matter does not conform to the applicable criteria.

This would then provide a necessary link to the practitioner's objective in a direct engagement that focuses on whether there are any material instances of non-compliance with the underlying subject matter with the applicable criteria.

As noted in 3 (c) above, in the AASB's view, the concept of misstatement does not apply to direct engagements since in those engagements there is no subject matter information or assertion by management that might be "misstated". The auditor's findings and overall conclusion will be the only communication of subject matter information. This outcome has also been acknowledged in paragraph A4 of the draft ISAE 3000 which states, in part "In some cases, the practitioner's conclusion is the subject matter information." In Appendix 1 suggested wording to address this issue is presented.

### **C. REQUESTS FOR COMMENTS ON OTHER MATTERS**

- *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.*

#### *Assurance Report Content*

The requirements in revised ISAE 3000 give the impression that practitioners will adopt a short form report as the standard reporting format. For the Canadian legislative auditing community, most reports are long form reports and this will continue to be the case.

#### *Findings and Recommendations*

Revised ISAE 3000 has requirements regarding the reporting of the practitioner's findings and recommendations. Based on our review of the revised ISAE 3000, we have two concerns with the draft standard.

The requirements in Paragraph 59 need to be cross-referenced to A1. Otherwise, Paragraph 59 on its own seems to suggest a single conclusion, whereas some direct reporting engagements involve conclusions around each audit objective rather than one single conclusion. It is not a matter of whether the subject matter information is correct, but rather whether the evidence obtained indicates whether the relevant criteria have been met, leading the practitioner to conclude on the audit objectives.

*Risk of fraud and illegal acts*

The presence of fraud or other illegal acts should be considered by the practitioner when planning procedures to obtain sufficient appropriate evidence to support the engagement conclusion. The revised standard should include requirements about assessing the risk that the underlying subject matter or the subject matter information fails to meet a criterion as a result of fraud or illegal acts.

*Outreach and timely, comprehensive non-authoritative guidance*

The scope of draft ISAE 3000(Revised) is very broad in its application, contains new requirements and introduces new terminology with concepts carried forward to the proposed International Framework. The IAASB along with countries who may ultimately adopt the proposed international standard in final form, with amendments to the exposed version as appropriate, will need to emphasize outreach with practitioners and stakeholders to ensure proper understanding. As noted in Question 1 above, ensuring access to proper guidance material will also be key in the successful execution and attainment of consistent high quality engagements and is suggested as a priority area for the IAASB to encourage with countries adopting the proposed standard, as amended, in final form.

The AASB suggests that it would be useful for national standards setters, professional accounting bodies or others to develop non-authoritative guidance to cover matters such as the following::

- *objectives* of attestation engagements vs. direct engagements
- *definitions* with a focus on key terminology included in ISAE 3000 (e.g., underlying subject matter, subject matter information,);
- how *evidence* differs from *subject matter information*; - considerations in determining level of *materiality*;
- the form and content of *acceptable forms of other assurance reports* , including illustrations
- issues relating to adopting ISAE 3000 in a particular jurisdiction;

The AASB also recognizes that the IAASB, through its monitoring, research and consultation efforts, identifies areas where assurance standards regarding specific types of engagements are needed to build on and promote the effective application of the fundamental concepts set out in ISAE 3000. We strongly encourage the IAASB to continue those efforts.

- *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.*

We have no specific comment on this matter.

- *Users of Financial Information or Financial Statements of SMEs, including Regulators*

Not applicable.

- *Developing Nations*  
Not applicable to Canada.
- *Translations—Recognizing that many respondents may intend to translate the final ISAE for adoption in their own environments, the IAASB welcomes comments on potential translation issues respondents may note in reviewing the proposed ISAE.*

We have not identified any potential translation issues.

- *Effective Date*  
The provisional effective date of 12-15 months is, on balance, appropriate. However some practitioners may prefer longer time frames (15 to 24 months) to fully incorporate new requirements into practice.

#### **D. ADDITIONAL COMMENTS**

##### *Conforming amendments*

Please see Appendix II attached for our comments regarding conforming amendments to ISAE 3410, ISAE 3402 and the International Framework.

We hope that these comments will be useful to the IAASB in finalizing proposed ISAE 3000(Revised). If you have any questions or require additional information, please contact Greg Shields at (416) 204-3287.

Yours very truly,



Bruce Winter, FCA  
Chair, Auditing and Assurance Standards Board (Canada)

c.c. CICA Auditing and Assurance Standards Board Members Philip Cowperthwaite, FCA

## SUGGESTED CHANGES TO WORDING OF DRAFT ISAE 3000

### A. DIRECT ENGAGEMENTS

The following are suggested changes to the wording of draft ISAE 3000 that would address AASB's concerns as set out in our response letter regarding the objective of direct engagements and AASB's view that the application of the concept of misstatements to direct engagements.

#### Paragraph 6

In conducting an assurance engagement, the objectives of the practitioner are:

- (a) To obtain either reasonable assurance or limited assurance, as appropriate, about whether
  - (i) in an attestation engagement, the reported outcome of the measurement or evaluation of the underlying subject matter (that is, the subject matter information) is free from material misstatement(Ref: Para. A1); or
  - (ii) in a direct engagement, the underlying subject matter conforms in all material respects with applicable criteria thereby enabling the practitioner to make that conclusion (Ref: Para A1); and
- (b) To express a conclusion regarding the outcome of the measurement or evaluation of the underlying subject matter through a written report that clearly conveys either reasonable or limited assurance and describes the basis for the conclusion and
- (c) To communicate further as required by relevant ISAEs.

#### Paragraph 8 (a) (i) b.

....The practitioner's conclusion is expressed in a form that conveys the fact that, based on the procedures performed; nothing has come to the practitioner's attention to cause the practitioner to believe:

- (a) in an attest engagement, that the subject matter information is materially misstated; or
- (b) in a direct engagement, the underlying subject matter does not conform in all material respects with the applicable criteria.

#### Paragraph 8 (c).2 (new)

Deviations: In a direct engagement, instances when the underlying subject matter does not conform with the applicable criteria.

**Paragraph 8 (n)**

Misstatement—A difference between the proper presentation of an aspect of the outcome of the measurement or evaluation (including, where relevant, presentation and disclosure) of the underlying subject matter against the applicable criteria., ~~This definition applies to all assurance engagements under the ISAEs, including those where the practitioner’s conclusion is the subject matter information.~~ Misstatements can be intentional or unintentional, and include omissions (see also paragraph A7).

*(Note: see change to paragraph A7 below)*

**Paragraph 8 (q)**

**Practitioner---** “..... In a direct engagement, the practitioner both measures or evaluates the underlying subject matter against the criteria and applies assurance skills and techniques to obtain reasonable assurance or limited assurance, as appropriate, about whether the (outcome of that measurement or evaluation is free of material misstatement) underlying subject matter conforms in all material respect with applicable criteria.

**Paragraph 36**

The practitioner shall consider materiality when: (Ref: Para. A84–A91) (a) Planning and performing the assurance engagement, including when determining the nature, timing and extent of procedures; and

(b) In an attestation engagement, evaluating whether the subject matter information is free from misstatement and in a direct engagement, evaluating whether the underlying subject matter conforms with applicable criteria

**Paragraph 43**

The practitioner shall accumulate uncorrected misstatements or deviations identified during the engagement other than those that are clearly trivial (see also paragraph A99).

**Paragraph 55**

In an attestation engagement, the practitioner shall evaluate whether the subject matter information adequately refers to or describes the applicable criteria. (Ref: Para A130-A132), or In a direct engagement, the practitioner shall evaluate whether there is appropriate disclosure and reference to the applicable criteria in the subject matter information the practitioner creates.

**Paragraph 56**

In an attestation engagement, the practitioner shall form a conclusion about whether the reported outcome of the measurement or evaluation of the underlying subject matter is free from material misstatement, or In a direct engagement, the practitioner shall form a conclusion about whether the underlying subject matter conforms in all material respects with the applicable criteria

In forming that conclusion the practitioner shall consider: (Ref Para A1 and A133-A134)

- (a) The practitioner’s conclusion in paragraph 44 regarding the sufficiency and appropriateness of evidence obtained; and

- (b) In the case of attestation engagements, an evaluation of whether uncorrected misstatements are material, individually or in aggregate (Ref. Para A99) or in the case of direct engagements, whether deviations from criteria are material, individually or in aggregate.

### **Paragraph 59**

Add cross-reference to A1. (To make explicit that multiple conclusions are allowed.)

### **Paragraph A4**

In a direct engagement, the practitioner measures or evaluates the underlying subject matter against the criteria, the outcome of which is the subject matter information. In some cases, the practitioner's conclusion is the subject matter information. The practitioner is not independent of the subject matter information because the practitioner created that subject matter information. Depending on the underlying subject matter:...

*(Note: The reason for this suggested change is that added sentence is better placed in paragraph A4 rather than paragraph A6(a). The practitioner's lack of independence to the subject matter information in direct engagements is a fundamental concept that distinguishes direct engagements from attestation engagements, whereas the material in paragraph A6(a) is to describe the value of a direct engagement.)*

### **Paragraphs A5**

In addition to measuring or evaluating the underlying subject matter, the practitioner in a direct engagement also applies assurance skills and techniques to obtain sufficient appropriate evidence in order to express a conclusion about whether ~~the subject matter information materially misstates the outcome of the measurement or evaluation of~~ the underlying subject matter conforms in all material respects with against the applicable criteria. The practitioner often obtains that evidence simultaneously with the measurement or evaluation of the underlying subject matter, but may also obtain it ~~before or~~ after such measurement or evaluation.”

### **Paragraph A6(a)**

The independence of the practitioner from the underlying subject matter, the engaging party, intended users and the responsible party. ~~The practitioner is not independent of the subject matter information because the practitioner created that subject matter information.~~

*(Note: see corresponding change to paragraph A4 above)*

### **Paragraph A7**

In the ISAEs, the potential for the measurement or evaluation.....is known as risk of material misstatement for ~~both attestation engagements and direct engagements.~~

## **B PRECONDITIONS FOR THE ENGAGEMENT**

### **Overall comment**

It is clear that the IAASB recognizes that assurance engagements performed in the public sector will face some unique challenges, and has included guidance in paragraph A33 to address some of these challenges. A more appropriate solution in the view of the AASB is to have the standard modified for public sector engagements, allowing the practitioner in situations where not all of the preconditions for an engagement have been met, to complete the engagement in all other respects in compliance with the standard. The standard should include guidance describing how the practitioner should exercise his/her professional judgment in instances where some or all of the preconditions are absent and how this could impact the conclusions in his/her report. It would seem logical to bring forward discussion from A33 and include as part of the proposed standard requirements.

### **Proposed revised wording**

#### **Paragraph 18 (d) (new)**

For the public sector, where not all of the preconditions for an engagement may be present without further work to establish those preconditions, in those circumstances, the practitioner completes the engagement in all other respects in compliance with the standard.

#### **Paragraph 20(c) (new)**

Law or regulation exists that prescribes the terms of the engagement in sufficient detail.

## **OTHER SUGGESTED CHANGES TO DRAFT ISAE 3000**

### **Paragraph 42(b) Limited Assurance Engagements**

In a limited assurance engagement, the practitioner shall “perform those procedures”

Paragraph 42(a) ...consideration of material misstatements in attestation engagements or deviations in direct engagements...

Paragraph 42 (b) simply states “perform those procedures” with no guidance provided, whereas paragraph 41 (b) provides slightly more detail regarding what “those procedures” could be in a reasonable assurance engagement.

Add to Paragraph 42 (c): In an attestation engagement...

Add new Paragraph 42(d): In a direct engagement, if the practitioner... causes the practitioner to believe material deviations may exist...

AASB suggests adding application material to describe in greater details, the nature of the procedures that may be performed in a limited assurance, for example, inquiry, analytical review, as compared to what may be the nature of procedures performed in a reasonable assurance engagement.

### **Paragraph 60 (n)(i) – Assurance Report**



Clarity is needed in regards to the requirement to obtain “evidence that those with the recognized authority have asserted that they have taken responsibility for the subject matter information”: Are those with “recognized authority” the same as the responsible party” or the “engaging party”. The term should be defined.

## COMMENTS ON OTHER MATTERS

### CONSISTENCY BETWEEN ISAE 3000 AND ISAE 3402

There remain some inconsistencies between proposed ISAE 3000 and ISAE 3402 that should be eliminated as compliance with ISAE 3000 is required in addition to compliance with subject specific ISAEs. For example:

In ISAE 3000:

- the objective is to determine if the subject matter information is free from material misstatement. • misstatement is defined and there are requirements regarding accumulating misstatements, dealing with uncorrected misstatements and assessing the materiality of the misstatements as they relate to the subject matter information. These steps are undertaken in order to meet the objective of determining if “the subject matter information is free from material misstatement.”

In ISAE 3402:

- the objective ISAE 3402 is to determine if the subject matter conforms with applicable criteria. The subject matter information being free from material misstatement is not discussed.
- requirements discussed in ISAE 3000 relating to misstatements are not in ISAE 3402. ISAE 3402 deals with deviations that are assessed, rather than “misstatements”. Deviations being instances where the criteria have not been met. It may be difficult for a practitioner to comply with both ISAE 3402 and ISAE 3000 in regards to the above noted differences.

### CONFORMING CHANGES TO THE FRAMEWORK

#### General comments

In AASB’s view, it is premature to be exposing this document. This is in essence a first read of the exposure draft and as the IAASB Task Force (TF) notes, it contains many changes from the extant.

This document provides the underpinnings for all assurance engagements covered by standards in addition to ISAE 3000 (i.e. ISAs, ISREs and subject specific ISAEs). This will be the first opportunity for IAASB members to review the proposed changes to ensure that all assurance standards, existing and under development, are consistent with the fundamental concepts described in the proposed revised Framework. It is unclear whether the IAASB TF has undertaken this exercise.

In addition, matters related to assurance engagements performed in the public sector (such as preconditions) should be more clearly reflected in the Framework.

## Comments by paragraph

### Paragraphs 18, 79, 80 and Appendix 3 - Limited Assurance Engagements

It is unclear whether the ISAE 3000 Task Force has reconciled the material that is specifically related to limited assurance engagements with standards currently under development dealing with limited assurance engagements, e.g. ISRE 2400 and ISAE 3410.

### Paragraph 31– Practitioner

In our view, the description of the practitioner’s role in a direct engagement should be redefined to align with our suggested changes in the objective of ISAE 3000.

*“In a direct engagement....to obtain reasonable or limited assurance, as appropriate, about whether the ~~outcome of that measurement or evaluation is free from material misstatement.~~ underlying subject matter conforms in all material respects with applicable criteria, thereby enabling the practitioner to make that conclusion.”*

### Appendix 2- Attestation Engagements and Direct Engagements

This material is drawn from ISAE 3000. Please see AASB’s suggestion for changes to ISAE 300 re direct engagements. Similar changes to those suggested for ISAE 3000 are proposed for this Appendix.