

*Via e-mail*

**Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York  
10017, USA**

**September 1, 2011**

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

**Dear Sir/Madam**

The Office of the Auditor General of British Columbia welcomes the opportunity to comment on the above Exposure Draft. In addition to conducting financial statement audits, the Office has extensive experience with conducting direct assurance engagements (mostly performance or value-for-money audits) in the public sector since the late 1970s. For examples of our reports, please visit our website at [www.bcauditor.com](http://www.bcauditor.com).

## **GENERAL COMMENTS**

We appreciate the Board's difficult task in striking a balance with competing priorities and we have no doubt that some of the proposed changes are improvements to the extant standard and moves the standard towards greater alignment with the ISAs. However, our view is that the standard is still written with too much of a financial statement audit perspective and, on balance, will not meet the needs of Canadian practitioners, particularly those in the public sector who undertake direct assurance engagements.

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

No, we are not convinced that the nature and extent of requirements and guidance is sufficient to enable consistent high quality assurance engagements. We appreciate that there may be a limit to the extent to which the ISAE can provide more detailed requirements whilst remaining appropriate for all assurance engagements, and so a balance needs to be struck. However, it is our view that the proposed ISAE requirements and guidance are not sufficiently robust to drive consistency such that it increases the risk that different practitioners in similar circumstances will come to different conclusions regarding work effort and approach, particularly in the conduct of limited assurance engagements.

Our main concerns with ISAE 3000 in this regard are the blurring of the line between reasonable assurance and limited assurance engagements, the approach in how direct engagements are viewed, and the allowance for practitioners who are not professional accountants to apply the standard. These concerns are further elaborated in our responses to questions below.

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

In our view the lines between a reasonable assurance engagement and a limited assurance engagement as proposed in the standard are too blurred to enable a consistent approach by practitioners. We acknowledge that the IAASB has concerns with defining the term “limited assurance” with too much specificity for fear that, in doing so, it may restrict the broad acceptable range for which limited assurance can theoretically be provided. However, in our view, not describing the level of assurance in a limited assurance engagement will allow for different interpretations resulting in different work effort amongst practitioners. This difficulty may lead to reduced consistency in Canadian practice and, because of increased uncertainty, reduced value to users.

In Canadian practice the concept of “plausibility” is widely understood by practitioners and users relying on an engagement report to define the level of assurance associated with a limited assurance engagement. Furthermore, it provides a well-defined practical benchmark against which practitioners can assess the sufficiency and appropriateness of limited assurance evidence to support their conclusion. We therefore support the inclusion of the concept of “plausibility” in the standard as a defined reference point for the level of work effort and unifying description of the intended level of assurance with this type of engagement.

We further encourage the Board to develop more specific guidance with respect to work effort normally required in a reasonable assurance engagement versus a limited assurance engagement to enable a consistent application of the requirements.

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

Yes, the requirements and other material appear to be appropriate to both types of engagements.

**Question 3 (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, in our view the changes in terminology are reasonable.

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

Yes, in our view the definitions appear reasonable and sufficiently explain the differences between the two types of engagements.

**Question 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) is appropriate in light of the definition of a misstatement (see paragraph 8(n))?**

In our view the objectives in the proposed standard may be too narrowly specified. In particular, we are concerned with how objective 6(a) would be practically applied in a direct engagements and how objective 6(b) would apply to an attestation engagement.

We would prefer a more generic objective, such as:

*“The objective of the practitioner is to obtain either reasonable assurance or limited assurance, as appropriate, to express a conclusion concerning a subject matter”*

In a direct engagement it is the practitioner who measures the subject matter. In practice, this changes the nature of the assurance engagement from one where the practitioner gathers evidence about an evaluation/measurement that has been prepared by another party, to one in which the practitioner independently evaluates/measures the subject matter and in doing so accumulates sufficient appropriate evidence to support that evaluation/measurement. In other words, the accumulation of evidence in a direct engagement is done simultaneously with the evaluation/measurement of the subject matter, and there is no subsequent step of the practitioner reviewing his or her own work which is implied by objective 6(a).

As described accurately in the Explanatory Memorandum (EM) attached to the Exposure Draft, the value of a direct engagement lies in the combination of the independence of the practitioner from the underlying subject matter, the engaging party, intended users and the responsible party; and the assurance skills and techniques applied when measuring the underlying subject matter, which results in the accumulation of evidence that is of similar quantity and quality as from an attestation engagement. The EM also correctly identifies that the practitioner is not independent of the subject matter information because the practitioner created that subject matter information.

It is unclear to us as to how objective 6(a)—to obtain assurance about whether the subject matter information is free from material misstatement—would be practically applied within a direct engagement (current Canadian practice does not specifically identify a separate information role for the practitioner from an assurance role). This separation appears to us to be an unnecessary

and artificial distinction and does not reflect how direct engagements are carried out (we also wonder if there is a risk that by making this distinction users may question whether a self-review threat exists since the standard implies that the practitioner would be reviewing his/her own work)

We therefore question whether this distinction is necessary (or desirable) given that it does not accurately reflect the nature of a direct engagement as described above.

### *Misstatements in the Context of Direct Engagements*

The concept of “misstatement” is also problematic in a direct engagement context where the practitioner has an information preparation role. The definition of a misstatement in paragraph 8(n) “a difference between the subject matter information and the proper measurement of evaluation of the underlying subject matter against the applicable criteria” is clearly relevant in an attestation context where the practitioner does not have an information preparation role, but it is not relevant in a direct engagement context.

A more appropriate concept in a direct engagement would be one that more clearly articulates a deviation of the underlying subject matter (i.e. the evidence) from the criteria or a failure to meet one or more criteria.

### **Question 3 (c) (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, in our view the requirements and guidance are reasonable but we found the sections addressing criteria to be unwieldy to navigate in its hard copy format. However, this concern will be mostly mitigated in the final electronic version with electronic links.

### **Question 4 (a): With respect to describing the practitioner’s procedures in the assurance report, is the requirement to include a summary of the work performed as the basis for the practitioner’s conclusion appropriate?**

Yes, in our view this is consistent with best practice in that it assists users in understanding the nature of the assurance conveyed by the assurance report.

**Question 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?**

We agree that some form of communication is appropriate, but have concerns that the required wording is ambiguous and may not be well understood by users. Furthermore, we would encourage consideration of adopting stronger disclaimers and warnings to users in a limited engagement report as a further measure to emphasize the limitations of this type of engagement.

**Question 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 are supportive of including more guidance and/or examples to enable greater consistency amongst practitioners. Furthermore, we question whether it is appropriate to include references to other standards (as per paragraph A150) if the objective is for ISAE 3000 to be a stand-alone standard.

**Question 5: Do respondents believe that the form of the practitioner’s conclusion in a limited assurance engagement (that is, “based on the procedures performed, nothing has come to the practitioner’s attention to cause the practitioner to believe the subject matter information is materially misstated”) communicates adequately the assurance obtained by the practitioner?**

On balance our view is that the form of the practitioner’s conclusion (i.e. negative in nature) is appropriate as it reasonably distinguishes the level of assurance provided in a limited assurance engagement from that of a reasonable assurance engagement.

**Question 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?**

No, we do not agree with the approach taken of opening the standard’s application to non-professional accountants as this may lead to inconsistent quality on assurance engagements which ultimately may negatively effect the reputation of the accounting profession. While we recognize the Board’s view that restricting application of ISAE 3000 to professional accountants with assurance expertise is not necessarily in the public interest, on balance, we are not

convinced that allowing non-professional accountants is in the public interest, particularly given the extent of professional judgment necessary to effectively apply the standard. In this regard, we are concerned that not enough recognition has been given to the professional competence required to apply the standard in a consistent manner, or appreciation that providing assurance is a specialized process that requires specific skills and extensive experience to enable consistent quality work.

**Question 6 (b): Do respondents agree with the proposed definition of “practitioner?”**

We have no significant concern with the proposed definition although our preference would be to simply the definition somewhat, for example:

*Practitioner—the individual(s) responsible for performing the engagement who collectively have adequate proficiency in applying assurance skills and techniques to fulfill their responsibilities. Where this ISAE expressly intends that a requirement or responsibility be fulfilled by the individual with overall responsibility for the engagement, the term “engagement partner” rather than “practitioner” is used”*

Thank you for your consideration of the above-noted comments. If you have any further questions, please contact me at (250) 419-6171.

Yours truly,

Brian Jones, C.A.  
Executive Director, Professional Practices