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September 1, 2011

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JICPA Comments on the Proposed ISAE 3000 (Revised), Assurance *Engagements Other Than
Audits or Reviews of Historical Financial Information*

The Japanese Institute of Certified Public Accountants (“we”, “our”, and “JICPA”) is pleased to provide you with our comments on the Proposed ISAE 3000 (Revised), Assurance *Engagements Other Than Audits or Reviews of Historical Financial Information*. Based on our review, we have the following comments:

Response on Request for Examples of Assurance Engagements

The IAASB recognizes the increasing demand for assurance engagements under ISAE 3000 in several jurisdictions and its growing use in different engagement circumstances. To assist the IAASB in ensuring broad applicability and relevance of ISAE 3000, respondents are asked to provide examples of assurance engagements that are being undertaken in practice. Please include copies of relevant assurance reports where possible; or alternatively describe the underlying subject matter, the subject matter information, the criteria, the procedures, whether the engagement was a direct engagement or an attestation engagement, and whether it was a limited assurance or reasonable assurance engagement.

Please see the Appendix on page 11.

Response on Request for 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?

Comment:

We believe that the overall nature and extent of requirements in the proposed ISAE 3000 is appropriate, from the standpoint of maintaining sufficient flexibility, given the broad range of engagements to which the proposed standard will apply.

However, we do not believe that the proposed nature and extent of the requirements alone would result in consistent high quality assurance engagements. Among other things, we believe that the “practitioner” is an important factor in enabling consistent high quality assurance engagements. Please refer to our comment on this point in our response to question No.6 below.

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?
 - (b) Are the requirements and other material in proposed ISAE 3000 appropriate to both reasonable assurance engagements and limited assurance engagements?
 - (c) Should the proposed ISAE 3000 require, for limited assurance, the practitioner to obtain an understanding of internal control over the preparation of the subject matter information when relevant to the underlying subject matter and other engagement circumstances?

Comment on (a) and (b):

We believe that these are both properly defined and stated.

Comment on (c) :

We do not believe that ISAE 3000 should require the practitioner to obtain an understanding of internal control over the preparation of the subject matter information for limited assurance engagements.

We further believe that the decision as to whether or not obtaining an understanding of the internal control over the preparation of the subject matter information is essential depends on the practitioner's professional judgment on the need to obtain a meaningful level of assurance for the intended users given the engagement circumstances. Thus, we believe that the explicit requirement for obtaining an understanding of the internal control should not be established for limited assurance.

Furthermore, we believe that Paragraph A93 should be amended as follows:

"The practitioner ordinarily has a lesser depth of understanding than the responsible party. The practitioner also ordinarily has a lesser depth of understanding for a limited assurance engagement than for a reasonable assurance engagement, ~~for example, while~~ however, in some limited assurance engagements, the practitioner may obtain an understanding of internal control over the preparation of the subject matter information, ~~this is often not the case.~~ For limited assurance, the decision as to whether it is essential to obtain an understanding of internal control over the preparation of the subject matter information depends on the practitioner's professional judgment on the need to obtain a meaningful level of assurance for intended users in the engagement circumstances."

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

Comment on (a):

We agree with the proposed changes.

However, for the reasons stated below, we believe that, in order to minimize the confusion in practice, further explanation of the reasons for changing the terminology and for restructuring the conventional concepts should be provided:

- The Explanatory Memorandum does not clearly explain the reasons for changing the terminology.
- The terms of “assertion-based engagements” and “direct reporting engagements” may have become established in practice.
- In some jurisdictions, “attestation engagements” may be understood as including agreed-upon procedures engagements, and some challenges may arise in translating the term for adoption (since the term that came from the direct translation of “attestation” has already been used in practice, the proposed change may cause confusion at the adoption of the ISAE).
- Some practitioners may believe that the factors that previously caused confounding “assertion-based engagements” with “direct reporting engagements” have not been sufficiently solved. That is, there have been situations where, for instance, while

the practitioner has obtained the assertion measured or evaluated by the responsible party, the engagement that has concluded the underlying subject matter “directly”, not the responsible party’s assertion, has been the “assertion-based engagement”, not the “direct reporting engagement”. It seems that the proposed ISAE still states such an engagement as “attestation engagement”, not “direct engagement”, and the danger of similar confusion still exists.

Comment on (b):

Except for the following matters, we believe that the difference between direct engagements and attestation engagements is properly defined and explained.

If the proposed ISAE intends to focus on this aspect from the perspective of the threats to the practitioner’s objectivity due to both measuring / evaluating the underlying subject matter, and obtaining sufficient evidence for that measurement or evaluation, we believe that the definitions and the explanations for the difference between direct engagements and attestation engagements should be more clearly stated.

For instance, the proposed Appendix explains that, “(W)here the practitioner has measured or evaluated the underlying subject matter against the criteria, the engagement is a direct engagement.” However, we believe that it is more appropriate to say, “(I)n a direct engagement, the practitioner initially measures or evaluates the underlying subject matter against the criteria,” because the practitioner may perform the measurement or evaluation again (independently from the initial measurer or evaluator) in an attestation engagement.

Comment on (c):

Subject to the following, we believe they are appropriate.

- Further explanations of the following may help clarify Paragraph A7.
 - In a direct engagement, although a misstatement caused by the practitioner’s measurement or evaluation cannot be distinguished from the one caused by the practitioner’s failure to detect a misstatement, from an intended reader’s perspective, the subject matter information conveyed is nevertheless misstated.
 - Although it is not normally assumed that the practitioner reports material misstatements in the subject matter information, it is assumed that the practitioner reports when there are material findings with regard to the underlying subject matter (see also A164).
- The contents of A154 and A155 should be provided as requirements:
 - In an attestation engagement, the practitioner’s conclusion ~~can~~ shall be worded...
 - In a direct engagement, the practitioner’s conclusion ~~is always~~ shall be worded...

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?
 - (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?
 - (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?

Comment on (a):

Subject to the following, we believe that it is appropriate to include a summary of the work performed as the basis for the practitioner's conclusion.

We believe that a sentence in Paragraph 60 (k), which reads, "recognizing in the case of a limited assurance engagement, that an appreciation of the nature, timing, and extent of procedures performed is essential to understanding the assurance conveyed by the practitioner's conclusion," should be deleted for the following reasons:

- Including such a requirement, without clear criteria for the level of details in describing the nature, timing, and extent of procedures performed, may cause unnecessary misunderstanding or confusion arising from a significant difference in the level of details in each engagement.
- This sentence seems to be an excessive provision since a similar sentence already appears in Paragraph A152.

Comment on (b):

We believe it is appropriate.

Comment on (c):

We believe that it is not appropriate to include any additional specific requirements, given the wide variety of engagements to which ISAE3000 applies. However, the application material should more clearly refer to the fact that the level of details for the summary of the

practitioner's procedures depends on the practitioner's professional judgment, done by taking into account such engagement circumstances including the following:

- When there is a relevant law, regulation or subject matter-specific ISAE that provides requirements or guidance regarding the description of nature, timing, and extent of procedures performed, the content of this relevant law, regulation, or subject matter-specific ISAE.
- When there is no relevant law, regulation or subject matter-specific ISAE that provides requirements or guidance regarding the description of nature, timing, and extent of procedures performed, the details about the kind of information assumed to be necessary by the intended users regarding the nature, timing, and extent of procedures performed in order to understand the assurance conveyed by the practitioner's conclusion.

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?

Comment:

We believe that the communication is adequate.

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?

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

Comment on (a):

We agree with the approach, on the premise that the requirements on ISQC1 and Parts A and B of the IESBA Code or other requirements, that are at least as demanding as ISQC1 and Parts A and B of the IESBA Code, are certainly complied with.

However, from the perspective of ensuring the level of the practitioners, we believe that the practitioners who are able to express their compliance with ISAE3000 should be, in principle, limited to those who are effectively enforced to comply with ISQC1 and Parts A and B of the

IESBA Code or other requirements that are at least as demanding.

In an exceptional case when the practitioner, who is not effectively obliged to comply with such requirements, expresses their compliance with ISAE3000, we believe that the following matters should be satisfied:

- Disclose in the assurance report, that the firm or practitioner is not within a scope of an effective enforcement to comply with ISQC1 and Parts A and B of the IESBA Code (for example, the practitioner's firm is not a registered firm of the IFAC member body).
- Disclose in the assurance report, the specific title of the requirements of the standards that the practitioner's firm applies regarding quality control, and be prepared to explain that the requirements of the standards are at least as demanding as ISQC1.
- Disclose in the assurance report, the specific title of the requirements that the practitioner complies with as the relevant ethical requirements, and be prepared to explain that those ethical requirements are at least as demanding as the Parts A and B of the IESBA Code.

The above is due to the fact that we believe the information about the evidence of the compliance with ISQC1 and Parts A and B of the IESBA Code should be provided to the intended users, so that the intended users may consider the certainty of the firm's compliance with the requirements of the firm's quality control and ethics. We believe that the statements as required by Paragraph 60 (i) and (j) may not be sufficient for considering such matters. Also, the specific title of the requirements of the standards applied to the firm's quality control and ethics should be provided, and firm should be prepared to explain and demonstrate that those requirements are at least as demanding as ISQC1 or Parts A and B of the IESBA Code, respectively, so that the intended users may consider the contents of those requirements.

Comment on (b):

We agree with the proposed definition, on the premise that the requirements of ISQC1 and Parts A and B of the IESBA Code or other requirements, that are at least as demanding as ISQC1 and Parts A and B of the IESBA Code, are certainly complied with. However, as we described above, we believe that the practitioners who are able to express their compliance with ISAE3000 should be, in principle, limited to those who are effectively enforced to comply with ISQC1 and Parts A and B of the IESBA Code or other requirements at least as demanding.

Other Comments

(1) A case when the subject matter information is made up of a number of aspects

Paragraph A1 states:

“Where the subject matter information is made up of a number of aspects, separate conclusions may be provided on each aspect. While not all such conclusions need to relate to the same level of assurance, each conclusion is expressed in the form that is appropriate to either a reasonable assurance engagement or a limited assurance engagement.”

However, in cases when the subject matter information is made up of a number of aspects, we believe that the above application material is insufficient since it is important to pay special attention, in the assurance report, to avoid misleading the intended users.

We believe that it may be useful to clarify the following engagement circumstances by providing additional application material:

- Where both a reasonable assurance opinion and a limited assurance conclusion are expressed in a single assurance report, it may be appropriate to describe not only the conclusion but also (c), (d), and (k) of Paragraph 60 of each element for each aspects, in order to avoid misunderstandings by the intended readers that the reasonable assurance was provided for every aspect.
- Where attestation engagement is performed for some aspects of the subject matter information, and direct engagement is performed for the other, whether or not those conclusions may be expressed in a single assurance report.
- Where the subject matter information includes both historical financial information and other information, basic guidance as to whether ISAs or ISAEs should be applied.

(2) A case when specifically designed criteria is applied because there are no established criteria

While it is assumed, to some extent, that specifically designed criteria may be applied when there are no established criteria under ISAE 3000, we believe that the judgment as to the suitability of specifically designed criteria and the application material of the disclosure in the assurance report are not clarified.

Paragraph A46 (a) states, “(N)otes,...not issued by authorized or recognized bodies of experts that follow a transparent due process,” and the first bullet of Paragraph A144 states that it may be relevant to disclose “whether or not the criteria are... issued by

authorized or recognized bodies of experts that follow a transparent due process (and if they are not, a description of why they are considered suitable).” However, we believe that the various ways of disclosure that may result from the above can cause confusion since the definition, requirements, views, and examples of “authorized or recognized bodies of experts that follow a transparent due process” are not clarified.

(3) Explanation for the inherent limitation of assurance engagement

We believe that the explanation for the inherent limitation of assurance engagement is insufficient. While the inherent limitation of audit has been clarified (i.e. Para A45-A52 of ISA200) in the clarity project, the outcomes from this project have not been sufficiently utilized in the proposed ISAE.

Paragraph A50 states, “(O)rdinarily, evidence will be persuasive rather than conclusive,” but we believe the explanation for this seems insufficient.

(4) The term “audit engagement” or “auditor” in application materials

The term of “audit engagement” (Paragraph A123) and “auditor” (Paragraph A96, A125, and A168) should be replaced with “assurance engagement” and “practitioner”, respectively, since the proposed ISAE does not refer to an audit engagement.

(5) Duplication in the Assurance Framework

The contents of Paragraph 89 and 92 of the Assurance Framework are duplicated.

Sincerely yours,

Hidenori Takahashi

Executive Board Member – Audit and Assurance Practice

The Japanese Institute of Certified Public Accountants

Appendix: Examples of assurance engagements other than audits or reviews of historical financial information
 (Note: Below chart is not an official translation, and created solely for the purpose of overviewing examples of assurance engagements other than audits or reviews of historical financial information in Japan.)

Underlying subject matter	Subject matter information	Criteria	Summary of work	Type of engagements	Level of assurance
Effectiveness of internal control over financial reporting	Internal Control Report	Assessment standards for internal control over financial reporting generally accepted in Japan	Conduct in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Perform on a test basis and involve the evaluation of the overall Internal Control Report presentation, including the evaluation of the appropriateness of the scope, procedures and result of the assessment determined and presented by management.	Attestation engagement	Reasonable assurance
Design and operating effectiveness of controls at a service organization	Statement for controls at a service organization	JICPA Auditing Standards Committee Statement No. 18 “Assessing Control Risk for Entities Using Service Organizations” *	Obtain evidence about the disclosures in the service organization’s description of its system. Test the operating effectiveness of those controls.	Attestation engagement	Reasonable assurance
Compliance of customer for asset segregation for financial instruments	Management assertion	Financial Instruments and Exchange Act Article 43-2 (1) and (2)	Understand relevant controls and perform procedures to ascertain compliance of customer asset segregation.	Attestation engagement	Reasonable assurance

Underlying subject matter	Subject matter information	Criteria	Summary of work	Type of engagements	Level of assurance
business operators					
Compliance with Global Investment Performance Standards	Management assertion	Global Investment Performance Standards	Conduct in accordance with JICPA Industry Audit Practice Committee Statement No. 36.	Attestation engagement	Reasonable assurance
Controls to maintain systems security	Management assertion	AICPA/CICA Trust Services Security Criteria	Conduct in accordance with JICPA Information Technology Committee Statement No. 2.	Attestation engagement	Reasonable assurance
Controls for information security	Management assertion	JICPA Information Technology Committee Research Report No. 39	Conduct in accordance with JICPA Information Technology Committee Statement No. 5 and Research Report No. 39.	Attestation engagement	Reasonable assurance
Organizational performance towards the goal of sustainable development	Sustainability Report	GRI guidelines	Conduct in accordance with J-SUS practical guidance for assurance of sustainability information.	Attestation engagement	Reasonable /limited
The GHG emission for institutional emission trade and reducing obligation	Calculation Report	Guideline for calculation of the GHG emission, provided by Environment Bureau of Tokyo	Conduct in accordance with guideline for testing calculation of the GHG emission, provided by Environment Bureau of Tokyo.	Attestation engagement	Reasonable assurance

*currently under revision based on ISAE3402