



AUDITOR - GENERAL
SOUTH AFRICA

Mr James Gunn
Technical Director
International Auditing and Assurance Standards Board
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Dear Mr Gunn

Exposure draft: Proposed International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information

The Auditor-General of South Africa would like to take this opportunity of submitting comment on the exposure draft referred to above. We apologise for the late submission and would appreciate it if our comments could still be considered.

We attach, annexed to this letter, our responses to the specific questions asked in the consultation for your consideration.

Yours sincerely

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General comments

We believe that some of the terminology used in the standard is generally associated with audits of financial statements. Some of the terms and definitions used require a language review.

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?

Yes, the ISAE appears to address the broad requirements of performing an assurance engagement in one standard. The following matters should however be considered for inclusion:

- Determining performance materiality (when quantitative/qualitative materiality is applicable)
- Revision of materiality (when quantitative/qualitative materiality is applicable) at least when misstatements are evaluated
- The use of audit sampling
- Projection of misstatements
- The fact that the auditor should not change from a reasonable assurance to a limited assurance opinion due to the results of procedures performed
- Under which circumstances reasonable assurance cannot be provided and a limited assurance engagement should be undertaken
- For limited assurance engagements, the types of procedures required to be performed should be more specific i.e. the need for substantive tests of details or whether similar procedures under review engagements would be sufficient
- Under the documentation requirements, evaluation of misstatements should be included
- The ISAE makes no reference to management experts
- The revised standard should include requirements about assessing the risk that the underlying subject matter or the subject matter information fails to meet a criteria as a result of fraud or illegal acts.

We have the following comments on specific paragraphs:

- Paragraph 8: The definitions should be sufficiently described so that there is no need to link a definition to the Application and Other Explanatory Material section of the ISAE. This section is meant for further explanation of the requirements of an ISA/ ISAE. The definition for engagement risk does not include the components that comprise engagement risk i.e. inherent risk, control risk and detection risk.
- Paragraphs 8(w), (x): Would it be possible to use different terminology for either “underlying subject matter” or “subject matter information” to create a better distinction between the two terms? The current use of the terms is confusing. The definition for “subject matter information” that is included in the 2010 IFAC handbook (Glossary of terms) is more clearly described than the proposed definition, if this definition means the following – the subject matter information is the information that the entity is providing to the auditor for audit purposes. In a direct engagement the subject matter information would be incorporated in the findings of the auditor.
- Paragraphs 8(o), (p): These definitions are confusing, please consider rewording.
- Paragraph 11: “other subject matter-specific ISAE” instead of “other ISAE” should be used consistently throughout the standard.
- Paragraph 13: Could there not be circumstances where a requirement that is not conditional is not relevant and the auditor does not have to comply with it?
- Paragraph 14: The 3rd sentence of this paragraph does not form part of the requirement and should be moved to the Application and Other Explanatory Material section of the ISAE.

- Paragraph 16: We believe that the requirement to comply with this code is not sufficient if compliance is not monitored by a regulatory body.
- Paragraph 20(b)(v): It is not clear why the engagement should exhibit this characteristic.
- Paragraph 21: It should be included that the assurance report should be modified if the practitioner is required by law or regulation to accept the engagement even if the preconditions are not met. It should not state that such an engagement is not in terms of ISAE 3000. Paragraph 21 and 22 should be aligned, paragraph 22 allows the auditor to continue with the engagement if it was discovered after acceptance that the preconditions cannot be met. The standard should include guidance on how the practitioner should exercise professional judgement when some or all of the preconditions are absent and how this impact the conclusion.
- Paragraph 22(b): Include “unless required by laws and regulations.
- Paragraph 27(b): The word “extensive” should either be deleted or explained.
- Paragraph 37: What will be the requirement regarding “understanding of internal control” in the case of a limited assurance engagement? (If this requirement is made applicable to limited assurance engagements)
- Paragraph 42(c): Should this requirement not also apply to reasonable assurance engagements?
- Paragraph 43: The standard should clearly articulate the issues to be considered in assessing qualitative materiality with reference to ISSAI 4200 and ISA 450. Matters such as the extent or number of deviations, the impact thereof and the relevance to the stakeholders should be included.
- Paragraph 45(b): This paragraph should be before 45(a).
- Paragraph 55: What is the consequence if subject matter does not refer to or describe the applicable criteria?
- Paragraph 56: Is it intended that this requirement apply to reasonable assurance engagements only or limited assurance engagements as well? The wording indicates that it is only applicable to a reasonable assurance engagement.
- Paragraph 59: Reference is made to emphasis of matter, but it is not mentioned elsewhere in the ISAE. What matters would be covered as emphasis of matter. Reference is also made to findings, how do they differ from qualifications? We also recommend that the paragraph be amended to recognise the relationship between findings, conclusions and recommendations and that findings support the practitioner’s conclusion.
- Paragraph 60(e): What makes an inherent limitation significant? Would it matter to the reader of the report?

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?

The definition of a limited assurance engagement could be described more clearly and when it applies as opposed to a reasonable assurance engagement. By using the words “reduces engagement risk to a level that is acceptable in the circumstances”, the work effort is open to interpretation. The definition does not agree with the requirement in paragraph 42 of the ISAE. The requirement here is to perform procedures on areas where material misstatements are likely to occur with no requirement to perform risk assessment procedures. It is thus unclear how risk will be reduced. Since these engagements are higher risk engagements, should the auditor not focus on risk?

In the definition for a reasonable assurance engagement the words “practitioner’s opinion” are used while for the definition for a limited assurance engagement the words “practitioner’s conclusion” are used. We believe that it should be conclusion in both instances.

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

The ISAE has separate requirements for obtaining evidence when performing a reasonable or limited assurance engagement, which is appropriate because the work effort should differ. The rest of the requirements apply equally to both types of engagements and is appropriate as no distinction is made between the 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?

If the auditor is not required to perform risk assessment procedures, it would be appropriate to also not require an understanding of internal control. Including requirements to understand internal control without knowing which risks are being addressed would not be appropriate.

There are engagements where limited assurance is provided specifically on internal control. It would therefore be appropriate to include risk assessment procedures for limited assurance engagements.

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

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

The ISAE should include a scope section that explains that the ISAE deals with both direct engagements and attestation engagements. It might be necessary to state that both of these engagements can either be reasonable or limited assurance engagements.

The definition of a direct engagement could be improved by including an example in the Application and Other Explanatory Material section of the ISAE.

(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 word “proper” should be excluded from the definition. The definition of a misstatement is difficult to follow and rewording it should be considered. The definition could simply state that a misstatement is a deviation of the underlying subject matter from the criteria or a failure to meet a criteria. By making the definition less specific, it would be more relevant to assurance engagements that are different in nature from audits of financial statements. An example to clarify the circumstances might be necessary.

(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?

There are no requirements in the ISAE regarding the development of criteria (only in paragraph 55 which is not clear), but it is discussed in the application and other explanatory material relating to attestation and direct engagements.

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

(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, to alert the user of the assurance being provided.

(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?

Yes

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 users of these reports are familiar with the terminology.

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, but it should be included that the work of competent practitioners should be monitored by a regulatory body for auditors or a similar body in different jurisdictions.

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

No, the definition should include that the practitioner should be a member of IFAC and that the work performed should be monitored by a regulatory body for auditors or a similar body in different jurisdictions.