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Our ref: ICAEW Rep 95/11

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Dear James

**Proposed International Standard on Assurance Engagements (ISAE), ISAE 3000 (Revised),
'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information'**

ICAEW is pleased to respond to your request for comments on Proposed International Standard on Assurance Engagements (ISAE), ISAE 3000 (Revised), 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.'

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

PROPOSED INTERNATIONAL STANDARD ON ASSURANCE ENGAGEMENTS (ISAE), ISAE 3000 (REVISED), ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OR REVIEWS OF HISTORICAL FINANCIAL INFORMATION

Memorandum of comment submitted in September 2011 by ICAEW, in response to the International Auditing and Assurance Standards Board exposure draft Proposed International Standard on Assurance Engagements (ISAE), ISAE 3000 (Revised), 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' published in April 2011

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the exposure draft Proposed International Standard on Assurance Engagements (ISAE), ISAE 3000 (Revised), 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' published by the International Auditing and Assurance Standards Board (IAASB) in April 2011.

WHO WE ARE

2. ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 136,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. We ensure these skills are constantly developed, recognised and valued.

MAJOR POINTS

Achieving the objectives and consistent application with a principles-based standard

4. We strongly support the development and promulgation of a principles-based standard that is capable of being applied effectively to a broad range of underlying subject matters. Based on our experience, we believe that the extant standard, ISAE 3000 ('extant ISAE 3000'), strikes a fair balance between the need for rigorous principles and the application of professional judgement within the context of a broad range of subject matters, engagement circumstances and local legal and regulatory environments.
5. Through the ICAEW *re: Assurance* initiative, started in 2004, we promote dialogue about external assurance: exploring where new assurance services could strengthen market confidence by making information flows more credible; transparently asking how the IAASB's International Framework for Assurance Engagements (the 'Framework') and extant ISAE 3000, can be applied and developed; and answering calls for practical guidance to meet emerging business needs. We have encouraged such dialogue to bring greater knowledge and understanding of the role of assurance reporting and identify practical implementation issues relevant to a broad range of subject matter and circumstances. We summarise our work in Appendix 1 to this response.
6. As a result, ICAEW has developed technical and practical guidance based on the Framework and extant ISAE 3000. The guidance facilitates the application of the Framework and standard to a range of subject matters by helping practitioners to structure and perform assurance engagements and stakeholders to understand the nature and value of assurance reports.
7. Over this time we have seen demand for external assurance grow steadily in areas such as corporate responsibility and public interest concerns, alongside market need triggered by legal and regulatory changes and demand from investors and analysts. We consider it fundamental that the profession rises to the challenge of the market and shows innovation in the field of assurance.
8. For this purpose, proposed ISAE 3000 (Revised) ('proposed ISAE 3000') should not be overly prescriptive. Prescription in this standard risks losing extant ISAE 3000's flexibility and applicability to the wide ranging and huge variety of subject matters across local jurisdictions. If there is sufficient global demand then subject matter specific standards could be developed. Furthermore, where there is demand that is specific to circumstances in local jurisdictions, we

consider this is best addressed through a supplementary local standard or professional guidance that aligns with the ISAE and provides practical application support to practitioners and users in that jurisdiction.

9. In order to address the regulatory desire to enhance the quality and uniformity of practice throughout the world and strengthen public confidence in the global accountancy profession, we consider that true quality stems from a sound understanding of the nature and objectives of an assurance engagement. We, therefore, firmly believe that quality comes first and foremost from a professional understanding of the basic principles of the Framework, supported by a principles-based standard with practical illustrations and examples, alongside the deployment of professional judgement underpinned by the robust application of the Code of Ethics.
10. While we accept that inspection and oversight are beyond the remit of the IAASB, we consider a key to ensuring consistency of practice on assurance engagements within a principles-based framework is the implementation of a sensible inspection regime. Inspection, for example, the Practice Assurance regime in the UK, objectively assesses both the process and procedures performed by the practitioner but also the extent to which professional judgement is exercised in the specific circumstances of the engagement.
11. Unfortunately proposed ISAE 3000 is in places overly prescriptive and may limit the use of the standard by practitioners who may look to alternatives, thereby adversely impacting the desire for convergence and greater uniformity of practice by the global profession in assurance engagements other than a well-trodden and clearly defined subject matter of audit. In Appendix 2, we set out key areas where we consider that the detail on proposed ISAE 3000 is either superfluous or unduly over-prescriptive.

Explaining the challenging concept of direct engagements

12. The definition of direct engagements and associated reporting in paragraph 8(a)(ii)b is highly conceptual. Although it is a valid concept and indeed is currently performed in various situations within the professional services environment, we believe it would be helpful to practitioners and users if the definition was supplemented by illustrations and further guidance.
13. We consider that it is possible to bring the definition in paragraph 8(a)(ii)b to life by referring to practical examples. In attestation engagements, the concepts of 'a party other than a practitioner,' 'criteria' and 'the underlying subject' are brought to life as 'management', 'a financial reporting framework' and 'financial performance and position' through the example of audit. Through practical illustrations, it should be possible to bring the high level definition of direct reporting to life so as to assist practitioners in the application of proposed ISAE 3000 to a broad range of engagements beyond attestation engagements.
14. It would also be helpful if proposed ISAE 3000 were to contrast direct engagements with attestation engagements by using common terminology that is familiar to practitioners and highlights the key differences between the two types of engagements.

Achieving clarity of the respective responsibilities of management and practitioners in direct engagements

15. The concept of direct engagements is unfamiliar to many practitioners and primarily differs from attestation engagements in relation to the role of the practitioner as he takes over certain responsibilities that are normally undertaken by the responsible party in attestation engagements. Therefore, it is essential that proposed ISAE 3000 provides more guidance on the respective responsibilities of management and the practitioner in direct engagements. The extent of responsibility and associated risk the practitioner accepts in direct engagements may be considerably different from attestation engagements and can vary from engagement to engagement while the scope for such variation is relatively limited in attestation engagements.

16. The proposed standard should highlight the importance of explicitly agreeing and clearly documenting the respective responsibilities through, for example, written terms of engagement and, where appropriate, written management representations and of communicating these responsibilities to users in the assurance report. This is because the practitioner may potentially accept a far greater degree of responsibility in a direct engagement than in an attestation engagement and, unless the respective responsibilities are clearly defined, there is a scope for significant expectation gaps. As users do not normally have the access to the engagement terms and management representations, effective communication in the assurance report is fundamental to managing any expectation gap arising among users.
17. Proposed ISAE 3000 should also explain that the nature of reporting for a direct engagement can vary depending on the extent of responsibility the practitioner is willing to accept in each engagement. Agreement over respective responsibilities with management is particularly important for the practitioner around the determination of the subject matter, the scope (and boundaries) of the engagement, criteria, and the intended users. We illustrate the point using an example of a direct engagement on greenhouse gas emissions. A practitioner may present a greenhouse gas statement to which he attaches an assurance report on the greenhouse gas emissions. While the responsibility of the subject matter (i.e. control over the production of greenhouse gases) remains with the entity, a degree of responsibility would transfer to the practitioner because he presents the greenhouse gas statement. If the greenhouse gas statement turns out to be materially misstated, depending on the agreed extent of responsibility, the practitioner may be accountable for how the engagement was scoped, as well as their failure in identifying a material misstatement. In an attestation engagement, it is presumed that management is responsible for the subject matter information and therefore primarily responsible for scoping the engagement, such as setting the boundary for the subject matter, choosing the criteria, and considering the needs of the intended users. By contrast, the practitioner may be responsible for some or all of these aspects in a direct engagement and the extent of that responsibility may vary significantly. Direct reporting may thus flexibly meet the needs of users but it comes with risk for practitioners which they should be mindful of.
18. Furthermore, guidance in paragraphs A4 to A6 of proposed ISAE 3000 refers to different types of direct engagements (e.g., in some cases... (paragraph A4); in other circumstances... (paragraph A4(a)); the practitioner often obtains... but may also obtain... (paragraph A5)). As we have already stated, practitioners' experience of direct engagements is relatively limited and it is unlikely that practitioners readily understand what the different circumstances are that are being referred to. This further highlights the need for practical examples.

Interaction with the International Framework for Assurance Engagements

19. On the basis that we explained in paragraph 9, the following sentence in paragraph 3 of extant ISAE 3000 should be reintroduced in proposed ISAE 3000.

The conceptual framework for assurance engagements is set out This ISAE is to be read in the context of the 'International Framework for Assurance Engagements' (the Framework), which defines and describes the elements and objectives of an assurance engagement, and identifies those engagements to which ISAEs apply.

20. We believe that the Framework contains fundamental principles for assurance engagements and is a concise and extremely useful document. In particular, the section entitled *Elements of an Assurance Engagement* provides practitioners with a comprehensive and robust understanding of the nature of assurance engagements. Although proposed ISAE 3000 reproduces a number of paragraphs from the Framework, these principles are spread across the engagement procedures section and the application guidance. This does not provide practitioners with the much needed overview of how an assurance engagement should work. Therefore, it remains fundamental that practitioners read the Framework in its entirety. We believe it would be helpful if practitioners were reminded in proposed ISAE 3000 of the existence of the Framework as primary background material.

21. Proposed ISAE 3000 potentially leads to significant changes to the Framework. Also there is new material introduced into the Framework, including a diagram in Appendix 4 and a matrix in Appendix 5. We would urge the IAASB to perform a separate consultation so that the Framework may be made more accessible to readers as well as we may consider the matters arising from this ISAE 3000 consultation.

Complexity of having two dimensions related to assurance engagements

22. The standard introduces two 'dimensions' that define the type of assurance engagements covered by proposed ISAE 3000:
- Degree of confidence obtained: either a reasonable or a limited assurance engagement.
 - Responsibility over the subject matter information: either an attestation engagement or a direct engagement.
23. Paragraph 8 attempts to explain what implication each dimension has on assurance engagements. The outcome of having two dimensions is that, potentially, there are four different approaches to planning and performing assurance engagements.
24. To date, this has not been a significant issue. This is because extant ISAE 3000 contains little material on direct engagements and in effect deals with only two types of engagement i.e. reasonable and limited assurance engagements. However, if the standard is to discuss four types of assurance engagement, this can make the standard complex.
25. ISAE 3410 ED *Assurance engagements on greenhouse gas statements* uses matrices to highlight differences between reasonable and limited assurance engagements at various stages of the assurance engagement process. This is an unorthodox but clear and meaningful way to communicate the difference between the two types of assurance engagement where relevant. It may be beneficial therefore, if proposed ISAE 3000 provides matrices showing how two (or potentially four) types of assurance engagements differ at specific stages of the assurance engagement. It will also be helpful for proposed ISAE 3000 to state, for example immediately after the *Objectives of the practitioner* section, that requirements are applicable to all types of assurance engagement where no matrix is given.

RESPONSES TO SPECIFIC QUESTIONS AND POINTS

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?**
26. Yes, it would facilitate consistency but flexibility may be negatively affected by increased detail.
27. We believe that consistent high quality assurance engagements have been possible under extant ISAE 3000. However, as indicated in Appendix 2, requirements in proposed ISAE 3000 have increased considerably in specific areas. We understand that it is the IAASB's intention that the proposed standard enables the performance of consistent, high quality assurance engagements and that the IAASB considers the approach necessary to facilitate the ease of application of the standard. Unfortunately, we believe such an approach reduces flexibility and may negatively affect the applicability of the standard to existing and new practices. Together with the Framework, extant ISAE 3000 sets out high level principles that are robust and sufficiently flexible to be applicable to a range of subject matters. In our view, these high level principles may be challenging because the parties to the engagement, particularly practitioners, need to think through how the principal concepts can be applied in practice. However, we believe that this thought process ultimately benefits those involved in developing robust, effective and high quality assurance engagements on a variety of subject matters.

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?

28. Yes, we agree in principle with the definition and explanation of the difference between reasonable and limited assurance engagements set out in *Definitions* and the associated paragraph A2. We note that in Appendix 3 of the Framework there is a helpful explanatory matrix that both brings the definition and explanation together in one place and contrasts the various aspects of reasonable and limited assurance. We would encourage the inclusion of, or a cross reference to, this matrix in proposed ISAE 3000.
29. We agree that the level of assurance is not ordinarily capable of quantification and its meaningfulness is a matter of professional judgement, in particular in relation to the information needs of intended users. We agree that professional judgement should be reflected in how the practitioner deliberately limits the procedures to be carried out in a limited assurance engagement compared with a reasonable assurance engagement. The list of factors that are relevant for consideration in paragraph A2 is also useful.
30. While the Explanatory Memorandum states that there is no reference to a positive or negative form of conclusion, in substance, the limited assurance conclusion continues to use a negative expression 'nothing has come to the practitioner's attention...' Therefore we assume that there is little fundamental change to the present construction of assurance conclusions that is a widely accepted way of differentiating two types of assurance engagement in practice.

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

31. Proposed ISAE 3000 could be improved by highlighting the importance of professional judgement in terms of how each type of engagement should be carried out.
32. While reasonable assurance and limited assurance are not ordinarily capable of quantification, this does not preclude the difference from being a matter of degree rather than a distinction between two discrete types of assurance. Reasonable and limited assurance are terms given to a range of assurance a practitioner has obtained and the cut-off point between the two will inevitably be subjective. This subjectivity is acceptable only because the practitioner is able to exercise his professional judgement in a credible manner (paragraphs A75 to A79.)
33. As the Explanatory Material (the last paragraph, page 5) explains, the level of assurance is unaffected by the suitability of criteria, the appropriateness of an underlying subject matter and the materiality for the same intended users. This leaves the understanding of user needs and the evidence obtained to drive the practitioner to determine whether the required level of assurance is reached. This is particularly significant in a limited assurance engagement which requires the practitioner to determine how much (upper threshold) and how little (lower threshold) of evidence gathering is required to come to a conclusion that satisfies the needs of users.
34. This principle is clear in the definition in paragraph 8, but we note that paragraphs 39 to 42 discuss procedures specific to each type of assurance engagement. We also note that procedures that are specified in reasonable assurance engagements are either optional or not mentioned in limited assurance engagements. This appears to imply that, to obtain limited assurance that is meaningful to the intended users, the practitioner is free to determine the nature, timing and extent of procedures to be performed, including procedures that are typically used in reasonable assurance.
35. We believe proposed ISAE 3000 should link paragraph 40 more closely to paragraphs 41 to 44 because the practitioner should ultimately exercise his professional judgement in considering procedures for each assurance engagement and determine procedures to obtain sufficient and appropriate evidence needed for the assurance conclusion. In some engagements, this means

that the procedures will be the same for both types of engagement but the extent of testing may differ. In other engagements, the different types of procedures (e.g., substantive versus control-based) may be performed for each type of assurance engagement. Furthermore, depending on the engagement circumstances (for example, a new client or an existing client), the same subject matter in the same type of assurance engagement may require a different extent or type of procedures. Because proposed ISAE 3000 applies to a wide range of subject matters, the standard should not prescribe the nature or extent of procedures. It would however be helpful to include case studies in Application and Other Explanatory Material to illustrate how engagement procedures may be designed depending on the type of assurance, engagement circumstances and the subject matter.

36. We would also like to see a clear explanation early on, for example immediately after the *Objectives of the practitioner* that, where no separate guidance is given, the requirements and other material apply to both types of 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?

37. Yes, in principle. We would like proposed ISAE 3000 to remind the practitioner that an understanding of internal control may be relevant when planning an assurance engagement. There are instances when limited assurance (or indeed reasonable assurance) engagements need to be performed using a largely substantive approach due to the nature of the subject matter or due to the availability of sufficient evidence. However, when the subject matter itself is about the system or processes, such as with assurance engagements on internal controls, then obtaining an understanding of the internal controls should be an integral part of the procedures even for a limited assurance engagement.

38. A basic understanding of internal control and the control environment should be in any case useful as part of obtaining an understanding of the underlying subject matter and other engagement circumstances and of designing and performing subsequent procedures (paragraph 37). It is applicable to both types of assurance and should not be restricted to a reasonable assurance engagement. Consideration of internal control and the control environment in this context is different from the practitioner testing or relying on internal controls as part of evidence gathering. In practice, the practitioner is likely to consider how information is processed or produced in most types of engagement including in a compilation or agreed-upon procedures 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"?

39. Yes, we agree.

40. We note that the terminology "assertion-based engagements" and not "assurance-based engagements" appears in extant ISAE 3000 and in the Assurance Framework. Therefore, we presume that this question should read "assertion-based engagements".

41. In our practical guidance outlined in Appendix 2, we have used the term "assertion-based engagements" in accordance with paragraph 10 of the Framework. The term is clear and it is relatively straightforward to explain that assurance reporting is based on management assertions and that the role of management is important in the assurance engagement.

42. However, provided that users can understand what an attestation engagement is, we accept the change in the terminology. After all, “attestation engagement” is simpler than “assertion-based engagement” after all.
43. We have no issue with switching from “direct-reporting engagements” to “direct engagements”.

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

44. No, it could be improved with more explanation and examples. Please refer to our concerns regarding direct engagements under ‘MAJOR POINTS.’

(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))?

45. Yes, the objective in paragraph 6(a) is appropriate. However, the requirement of paragraph 60(l)(iii) that require the conclusion for a limited assurance engagement to be expressed in terms of the subject matter information in paragraph 60(l)(iii) appears to be inconsistent with paragraph A155 that states ‘in a direct engagement, the practitioner’s conclusion is always worded in terms of the underlying subject matter and the criteria’. We would welcome clarification on this apparent inconsistency.

(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?

46. The explanation in paragraphs A9-10 appears logical. However, it is nevertheless difficult to envisage how this would work in practice without affecting the objectivity (or the appearance of objectivity) of the practitioner. Management of the responsible party manages its business and operations and so they ought to understand and monitor outcomes and performance as part of their responsibility. Where management is unfamiliar with the concept of formal criteria, the practitioner may assist in setting them out. In practice, however, the practitioner might be in a better position to manage user expectations should he obtain the agreement from management that management is responsible for determining the criteria and that the criteria satisfy the needs of the intended users.

47. Regarding proposed ISAE 3000, it would be useful to have a few examples in paragraph A10. The related explanation in paragraph A68 discusses objectivity but not the challenges a particular type of engagement might present as discussed in paragraph A10.

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?

48. It depends on the subject matter and the user needs. As we set out in our response to ISAE 3410 ED, when an assurance engagement concerns a relatively new subject matter or the practitioner’s work varies from engagement to engagement, both responsible parties and users are likely to appreciate information on the work carried out.

49. It is right that the requirement in proposed ISAE 3000 does not require more than the provision of a summary of the work performed. Otherwise, as we cautioned in our response to ISAE 3410 ED, we risk misleading users that it is their responsibility to draw a conclusion from detailed information on work carried out. Some users may also consider that the extent of summary provided is in accordance with the level of assurance.
50. If an assurance engagement concerns a well understood subject matter with established criteria or if subject matter specific standards or guidance exist, the need for the summary of the work performed should reduce.
51. We would not support prohibiting the practitioner from providing further details of work that he has carried out. For example, if the practitioner has agreed with the users of the report to provide more details rather than a summary and the users understand the nature and work effort involved in an assurance engagement, as well as the role of the practitioner, the risk of an expectation gap may be effectively managed.

(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?

52. No. We consider that this is inappropriate unless some information is provided about what significant procedures have been omitted or would have been performed for a reasonable assurance engagement. Readers of the assurance report are not responsible for determining the work effort for the engagement, and therefore are not responsible for designing the procedures the practitioner may have performed for a reasonable assurance engagement.

(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?

53. No, further requirements regarding the level of detail are not needed. The level of detail needed for the summary of the practitioner's procedures in a limited (or reasonable) assurance engagement may well differ depending on the engagement circumstances including the knowledge and needs of the reader(s) of the report and their involvement in the engagement process. It would be unnecessarily prescriptive to set out the level of detail needed for the summary. Guidance need not do much more than warn the practitioner that the nature and extent of detail needed for the summary of his procedures may differ according to the specific engagement circumstances. Providing case studies to illustrate the point may 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?

54. As we stated in our response to ISRE 2400 ED, which deals with limited assurance over historical financial information, all stakeholders appear to prefer a positively worded conclusion. However, in the absence of a better alternative, we support the use of a negative conclusion in conveying limited assurance. Negative assurance is a clear and distinctive way of differentiating limited assurance from reasonable assurance.

55. The task for the IAASB is to encourage practitioners to communicate with the readers of the assurance report so that there is a better understanding of what reasonable and limited assurance means in each engagement circumstance. We also encourage the IAASB to lead

an exercise to inform users about the meaning of negative conclusions in conveying limited assurance and would be keen to co-operate in this regard.

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?

56. Yes, provided that proposed ISAE 3000 is clear on the criteria of competent practitioners.

57. The IAASB owns the Framework and ISAE 3000 (and other ISAEs and ISREs), and it should assert who may use the Framework and the assurance engagement standards. For example, the criteria for professional accountants in public practice or other competent practitioners may include:

- educational and CPD requirements equal to those of professional accountants;
- compliance with the Code of Ethics or other professional requirements, or requirements imposed by laws or regulations, that are at least as demanding;
- firm level compliance with ISQC1 or other professional requirements, or requirements imposed by laws or regulations, that are at least as demanding; and
- oversight mechanism provided by competent bodies.

58. If such criteria are not met, a practitioner should not be considered competent regardless of their formal qualification. In this way, the IAASB can also help competent practitioners differentiate themselves from other practitioners. Users will also benefit from the clear definition as to whom the IAASB regard as competent practitioners. We believe that the IAASB should be concerned that, as currently drafted, anyone could perform an assurance engagement following proposed ISAE 3000, potentially in an arbitrary manner and risk damage to the reputation of the profession.

59. Proposed ISAE 3000 needs to be clear as to whether competent practitioners other than professional accountants in public practice are allowed to use the standard or not. Rather than to write in the proposed standard 'bearing in mind that it may be used by ... a competent practitioner other than a professional accountant in public practice,' the IAASB should clearly state, in the introduction of proposed ISAE 3000, that it should only be used by professional accountants in public practice or other competent practitioners who satisfy a set of criteria that the IAASB specify. The current position that the standard 'may be used by other practitioners' is unclear as to whether the IAASB is referring to the possibility of others using the standard or whether it is granting permission.

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

60. No, as identified above, the definition of practitioner should incorporate prerequisites of professional accountants and other competent practitioners.

61. Currently, proposed ISAE 3000 is 'premised on' the practitioner's compliance with the Code of Ethics or quality control requirements. However, these are basic prerequisites of professional accountants in practice and, should the IAASB agree, of competent practitioners. Therefore compliance should be part of the definition of 'practitioners' and not merely treated as the premise for using proposed ISAE 3000.

OTHER SPECIFIC MATTERS

Public sector

62. It is our understanding that proposed ISAE 3000 will be helpful for practitioners who carry out assurance engagements in the public sector where, in particular, direct engagements are regularly carried out.

Proposed ISAE 3000 should be better balanced on the level of detail, clearer and free of jargon

63. One significant improvement between extant ISAE 3000 and proposed ISAE 3000 is a clearer explanation regarding the relationship between the subject matter and subject matter information. The adjective 'underlying' in the 'underlying subject matter' appears to be effective in facilitating clarity.
64. The introduction of the concept that the assurance engagement is a continual and iterative process (paragraphs 39, A82) is also in line with our experience of applying ISAE 3000 in practice.
65. Another example of helpful guidance is on materiality in *Application and other explanatory materials* (paragraphs A84-A91), in particular the introduction of the concept of 'the common information needs of intended users as a group.'
66. However, the explanation is at times very technical and readers who are not professional accountants may find it difficult to understand. This is particularly applicable to the concepts and terminology derived from International Standards on Auditing (ISAs). If the IAASB considers that communication with users is important, and intends that non-accountant practitioners should refer to the standard, the terminology used and explanations given will need to be clearer and free of jargon.

Determining the type of assurance relevant to the engagement party and users

67. Paragraph A2 lists factors to consider in determining the procedures for a limited assurance engagement. We consider that these factors are not only relevant to the determination of procedures, but also relevant to the engaging party and users when they determine which type of assurance engagement is appropriate in the light of their needs. This point should be added to paragraph A2 so that the practitioner may discuss these factors with the engaging party when agreeing the scope of engagement. It would also be useful to include practical examples to bring the point to life.

Compliance with ethical requirements should be part of acceptance and continuance

68. Paragraph 18(a) requires the practitioner to comply with ethical requirements based on a negative conclusion. Since the standard is premised on this requirement (paragraph 2(a)) and the assurance report refers to such compliance, we suggest that this should be stated in a positive form i.e. 'The practitioner believes that relevant ethical requirements...will be satisfied.'

Clients need to be aware of the agreed terms of the engagement

69. Paragraph 24 requires the practitioner to assess the need to revise the terms of engagement and the need to remind the client of the existing terms of the engagement. We believe that the client needs to agree with the terms of the engagement, either by signing new or revised terms of engagement or by being reminded by the practitioner of the existing terms of the engagement.

Guidance on criteria should be helpfully brought together

70. Anecdotally, we have heard from practitioners that one of the main obstacles to using extant ISAE 3000 relates to identifying suitable criteria. While there is more guidance in proposed ISAE 3000 in paragraphs A9-10 and A42-49, much of that comes directly from the Framework and new materials are limited to paragraphs A10 and A45-47.

71. We recommend that application guidance related to *Definitions* (paragraphs A9-10) and that related to *Preconditions* are presented together to facilitate a comprehensive understanding of the concept within the context of proposed ISAE 3000.
72. We also note that the proposed amended Framework only implicitly expects the practitioner to assess the suitability of criteria (paragraph 47), in contrast to a more explicit requirement to assess the suitability under the extant Framework (paragraph 37). We would like the existing wording to be reinstated in the proposed amended Framework that 'the practitioner assesses the suitability of criteria for a particular engagement by considering whether they reflect...'

Unclear bullet point in among qualitative factors affecting materiality

73. The last bullet point in paragraph A88 is unclear as to what type or nature of misstatement relates to 'the relationship between the responsible party, the measurer or evaluator...' This description is too abstract and we would encourage practical illustration.

The practitioner should also assess criteria even if they are established

74. It is the practitioner's responsibility to assess the suitability of criteria, regardless of whether they are established or developed for the engagement. We consider that the guidance given in paragraph A46, 'in the absence of indications to contrary', is insufficient to remind the practitioner of their responsibility to exercise professional judgement to assess the suitability of criteria. We have seen instances over the years where what are presumed to be acceptable reporting frameworks do not necessarily withstand the rigour of assurance processes and engaging parties need to elaborate them into suitable criteria or reduce the scope of the subject matter where legislation does not allow such elaboration.

Written representation does not replace other evidence

75. Paragraph 125 of extant ISAE 3000 has now moved to *Application and other material* in proposed ISAE 3000. The paragraph sets out an important requirement that the practitioner obtains evidence because written representations, even if they are reliable, do not provide sufficient and appropriate evidence on their own. We believe that this should be moved back to the main body of proposed ISAE 3000.

Referencing error

76. Reference in paragraph 26 refers to paragraph 61. We believe that this probably should be paragraph 62.

Assurance engagements conducted in accordance with laws and regulations

77. Proposed ISAE 3000 could usefully bring forward paragraph 62 to the introduction of the standard. This also helps to remove the requirement that '*the practitioner shall not include any reference within the assurance report to the engagement having been conducted in accordance with ISAE 3000 or any other ISAE(s)*' being repeated in paragraphs 22 and 26.

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Appendix 1. ICAEW thought leadership projects on assurance

All publications are publicly accessible from icaew.com/assurance.

Projects to raise awareness of the benefit of assurance

- *Perspectives on assurance: Engaging practitioners, businesses and policy makers (2007)*
A series of three discussion papers aimed at specific audiences: those with an interest in public policy, people in business and assurance practitioners. These papers explain the role of assurance in enhancing the market confidence by making information credible.
- *Sustainability assurance: Your choice (2010)*
This publication highlights key issues around the assurance of sustainability information using a series of questions and answers with illustrations of real life experiences for the benefit of businesses and management. The questions cover the identification of intended users, the nature and role of independent assurance and in what other capacities professional accountants could help enhance business sustainability.
- *Chartered accountant services (2006)*
This information sheet concisely explains management of audit-exempt companies three distinctive services (compilations, reviews and audits) from which they may choose to enhance the credibility of their financial information.
- *Assurance on non-financial information: Existing practices and issues (2007)*
This paper examines the types of non-financial information on which external assurance reports are currently provided and considers further opportunities for practitioners. It also raises awareness of some of the practical challenges that practitioners may face when providing independent assurance services.

Technical guidance for practitioners and management of responsible parties

- *AAF 01/06 Assurance reports on internal controls of service organisations made available to third parties (2006, expanded 2009 and 2010)*
Procedural guidance for practitioners reporting on the operational and financial internal controls of service organisations made available to user organisations. AAF 01/06 brought together preparers, users and practitioners to develop sets of control objectives to applicable financial service industries including custodians, investment managers and hedge funds as basic criteria for the benefit of preparers and practitioners.
- *ITF 01/07 Assurance reports on the outsourced provision of information services and information processing services (2007)*
Application of guidance in AAF 01/06 to the information technology industry.
- *AAF 03/06 The ICAEW Assurance Service on unaudited financial statements (2006)*
Issued to address the emerging needs of newly audit-exempt companies' needs, AAF 03/06 provides guidance on limited assurance service on financial statements. While being consistent with extant ISRE 2400, the guidance takes the principles of the International Framework for Assurance Engagements into account and adopts a risk-based approach in conducting the assurance engagement.
- *AAF 02/07 A framework for assurance reports on third party operations (2007)*
The guidance sets out relevant considerations when structuring assurance engagements on business relationships that involve two or more parties, in particular focusing on a range of three party relationships and the importance of considering the needs of users.
- *Stewardship supplement to AAF 01/06 (2011)*

Intended to assist asset managers wishing to obtain an independent assurance report on their commitment to the UK Stewardship Code based on the framework set out in AAF 01/06. The UK Stewardship Code was issued by the Financial Reporting Council in July 2011.

- *FSF 01/08 Skilled person's guidance – reporting under s166 Financial Services and Markets Act 2000 (2008)*
Guidance was issued to assist professional accountants and other experts who are requested to report under s166 Financial Services and Markets Act 2000. It reflects the introduction of s166 Return Assurance Reports and the provisions of Investment Firms (Auditor's Reports) Instrument 2007.

Research and reports based on ICAEW's practical experience

- *Company views on the ICAEW Assurance Service (2006)*
A summary of in-depth interviews carried out with 15 audit-exempt companies so as to understand the value and benefit they attribute to audit and other assurance services.
- *Alternatives to audit: Report on the ICAEW Assurance Service consultation (2010)*
This consultation findings report presents what ICAEW learnt from practical experience of providing the ICAEW Assurance Service over the period since 2006. The report contains valuable views of users of financial information that help in assessing the relevance of the services professional accountants provide to their needs. The report also considers the feedback received from practitioners on their experience of providing risk-based limited assurance engagements to smaller company accounts.

Appendix 2. Illustrative areas where the standard appears too detailed

- Some of the terms covered in *Definitions* (paragraph 8) may not need to be specifically defined. We caution the risk of over-prescriptive definitions about terms that are commonly used in plain English. By attributing specific meanings to common-place terms, there is a risk that the communicability of the standard is reduced: e.g. assurance skills and techniques, engagement circumstances, engaging party, evidence, measurer or evaluator, practitioner (defined in the Framework), responsible party (defined in the Framework).

Furthermore, in order to cover different scenarios, some of the definitions appear to have become too complicated. For example, paragraph 8(a)(ii)a states that 'In some cases, however, the subject matter information may be presented by the practitioner in the assurance report' in the context of an attestation engagement. This means that the subject matter information may be presented by the responsible party, a party other than the practitioner, or a practitioner. In practice, such explanation adds little to the definition of an attestation engagement.

- *Complying with relevant requirements* (paragraph 13): It is sufficient to say that in exceptional circumstances, the practitioner may need to depart from a relevant requirement in an ISAE and perform alternative procedures to achieve the aim of that requirement. Further specification of circumstances where departures may occur is unnecessary and unlikely to be complete.
- *Failure to achieve an objective* (paragraph 15): It is sufficient to say that if any of the objectives of the practitioner (paragraph 6) or any specific objective of requirements therein is not met, the practitioner should document the matter, and consider its impact on the assurance conclusion or withdraw from the engagement.
- Criteria in *Preconditions for the assurance engagement* (paragraph 20 (b)(iii)): Criteria needs to be suitable and available to the intended users regardless of whether they may be used by management in the preparation of the subject matter information or used by the practitioner in evaluation or measurement for the purpose of assurance reporting.
- Recurrent assurance engagements in *Agreeing on the terms of the engagement* (paragraph 24): This is a practice management issue and there is no need for the engagement standard to provide a requirement. It may be suffice to say in paragraph 23 that '*The agreed terms of the engagement...in laws or regulations and updated as appropriate.*'
- The details of paragraph 28(b) of *Assignment of the Team* are already covered by the requirement of 28(a). Alternatively it may be moved to *Application and other explanatory material*.
- Engagement level quality control responsibilities in *Responsibilities of the Engagement Partner* (paragraphs 29, 30 and 32) contain matters that are covered in ISQC1, e.g., engagement acceptance procedures and compliance with professional standards and applicable legal and regulatory requirements. Therefore these should be sufficiently covered by the practitioner's compliance with ISQC1.
- *Preparing the assurance report*: Paragraph 58 states that '... the practitioner's conclusion that conveys the assurance obtained about the subject matter information.' This may not be the case in direct-reporting/direct assurance engagement. Since there are possibly four variations, we suggest that the sentence should be '... the practitioner's conclusion that conveys the assurance obtained.'