

August 10, 2011

Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Dear Sir/Madam:

Re: Exposure Draft – ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

Overall, we strongly disagree with proposed ISAE 3000. In our view, numerous elements of proposed ISAE 3000 do not work in the context of direct engagements. In addition, elements of proposed ISAE 3000 do not work in the public sector environment. We believe that the difficulties with proposed ISAE 3000 would preclude their use in direct engagements and in the public sector environment. Adoption of the standard would effectively constitute a limitation on practice. This is contrary to the goal of the IAASB of ensuring broad applicability and relevance of the proposed ISAE 3000 and would not be in the interests of the profession or the public.

Following are our responses to the specific questions raised and additional matters.

Responses to Questions

1. The nature of requirements in the proposed ISAE 3000 will hinder, rather than enable, consistent high quality assurance engagements in some contexts. Specifically, while proposed ISAE 3000 is to apply to direct engagements, the requirements do not fit that context. As a result, the practitioner may not be able to meet all the requirements in a direct engagement. We discuss why proposed ISAE 3000 does not fit the context of direct engagements in our response to question 3(c) below.

The nature of requirements in the proposed ISAE 3000 are not sufficiently flexible for consistent application in the public sector environment. Proposed ISAE 3000 states at paragraph 18 that the practitioner may only carry out the assurance engagement where “the basis upon which the engagement is to be performed has been agreed...” Paragraph 18 then specifies that agreement is constituted, in part, by the practitioner establishing that preconditions for an assurance engagement are present. Use of the word “agreed”, results in confusion here because it does not reflect the ordinary meaning of the word. As well, it is not clear with whom agreement is required.

The required preconditions present difficulties in the public sector environment. For example, the practitioner may face challenges in obtaining agreement of the responsible party and access to evidence. The application and other explanatory material provides at paragraph A33 that some preconditions may be assumed to be present in a public sector environment. However, for consistent application, this should form part of the requirements.

In addition, the requirements should acknowledge that that not all preconditions may be met in a public sector environment, and should set out how the practitioner is to reflect that circumstance in performing the engagement.

A further precondition under paragraph 20(a) is that the practitioner shall determine whether “the roles and responsibilities of the appropriate parties are suitable in the circumstances.” Given the elasticity of the term “appropriate parties”, the precondition is broad and vague. In particular, the requirements do not specify that there be a responsible party. This could be addressed by elevating paragraph A34 to the requirements.

2. (a) Proposed ISAE 3000 properly defines, and explains the difference between, reasonable assurance and limited assurance engagements.

(b) The difficulties we raise with proposed ISAE 3000 do not relate to the categorization of engagements as reasonable assurance or limited assurance. The use of proposed ISAE 3000 is problematic for direct engagements—whether reasonable assurance or limited assurance—for the reasons set out in our response to question 3(c).

(c) Proposed ISAE 3000 should not require, for limited assurance engagements, that the practitioner obtain an understanding of internal control. We note that the conclusion to be expressed according to paragraph 8(a)(i)b., is that nothing has come to the practitioner’s attention to cause the practitioner to believe the subject matter information is materially misstated. This conclusion, while appropriate in the context of an attestation engagement, does not make sense in a direct engagement where the practitioner has himself or herself prepared the subject matter information. This illustrates the lack of suitability of misstatement in the context of direct engagements.

3. (a) We agree with the terminology change from “assurance-based engagements” to “attestation engagements” as well as from “direct-reporting engagements” to “direct engagements.” The change in wording clarifies that assurance engagements include both attestation and direct engagements.

(b) Proposed ISAE 3000 properly defines in paragraph 8(a)(ii) direct engagements and attestation engagements.

(c) We strongly disagree that the objectives, requirements and other material in proposed ISAE 3000 are appropriate for direct engagements.

(i) We are strongly of the view that the practitioner’s objective in paragraph 6(a) is not appropriate, given the definition of misstatement, in a direct engagement where the practitioner’s work is the subject matter information.

We strongly disagree with the appropriateness and relevance of “misstatement”, as defined, in the context of direct engagements.

Under paragraph 6(a), the practitioner is to obtain the requisite level of assurance about whether the subject matter information is free from material misstatement. According to proposed ISAE 3000, if the practitioner in a direct engagement has not properly measured the underlying subject matter against the criteria, the practitioner’s resulting subject matter information is a misstatement. This result is not analogous to a

misstatement by management in an assertion in an attest engagement. Using the same term to describe both circumstances is problematic.

As misstatement is the key concept of error for an attest engagement, deficiencies/ deviations (i.e., differences between criteria and results (subject matter information)) is the key concept of error for direct engagements. The proposed ISAE 3000 does not have this key concept.

Also, according to paragraph 54, when documents containing the subject matter information and the assurance report thereon include other information, and the practitioner identifies material inconsistencies or material misstatements of fact, the practitioner shall discuss the matter with the appropriate parties and take further action as appropriate. This requirement does not make sense in the context of a direct engagement where the practitioner himself or herself prepared the documents.

We note that we have no objection to a requirement that the practitioner accumulate differences between criteria and results and consider accumulated differences when forming his/her opinion.

In order to find the common ground between attestation and direct engagements, proposed ISAE 3000 draws a notional distinction between the measurement and evaluation that takes place in a direct engagement, on the one hand, and the assurance provided on the product of that measurement and evaluation, on the other. This distinction, though notional, is fundamental to proposed ISAE 3000.

In our view, the distinction between measuring/evaluating and providing related assurance is real and useful in the context of attestation engagements, but it is notional and not helpful in the case of direct engagements. Measurement and evaluation of the subject matter is not a separate part, but rather an intrinsic part of the direct assurance engagement.

The difficulties caused by making the distinction between measurement/evaluation and obtaining sufficient appropriate evidence in a direct engagement are illustrated by paragraph A68. The paragraph suggests that involvement in these two roles can be a threat to objectivity. The paragraph then suggests that an action to reduce that threat would be to have separate assurance personnel undertake them. Thus, proposed ISAE 3000 would effectively convert a direct engagement into a facsimile of an attest engagement. It does not make sense, nor is it helpful, to impugn the objectivity of the practitioner doing the measurement/evaluation. We note that paragraph A6 seems to support that assurance is an integral part of measurement/evaluation when done in a direct engagement.

(ii) Proposed ISAE 3000 appropriately addresses the selection or development of criteria for direct engagements.

4. (a) We agree that requiring a summary of the work performed as a basis for the practitioner's conclusion is appropriate.

(b) We agree with the requirement that there be a statement for limited assurance engagements where the procedures are limited and do not enable the practitioner to

become aware of all significant matters that might be raised in a reasonable assurance engagement.

(c) We suggest that proposed ISAE 3000 clarify its guidance regarding the level of detail needed for the summary of the practitioner's procedures in a limited assurance engagement. We have no issues with paragraphs A150 to A152. However, paragraph A153 states that the summary be written in an "objective way." It further states that "in most cases this will not involve relating the entire work plan..." This paragraph does not provide clear guidance and we suggest it could be removed.

5. As noted above, we disagree strongly with the proposed standard's use of the word "misstatement" in the context of direct engagements. We otherwise agree that negative assurance is appropriate.
6. (a) We agree with the approach taken regarding application of proposed ISAE 3000 by competent practitioners other than professional accountants in public practice.

(b) We agree with the proposed definition of "practitioner."

Comments on Other Matters

For the reasons set out above, we do not agree that the special considerations in the public sector environment have been dealt with appropriately in proposed ISAE 3000.

Yours truly,

Bonnie Lysyk, MBA, CA
Provincial Auditor

cc: Mr. Greg Shields, Director, Auditing and Assurance Standards, Canadian Institute of Chartered Accountants