



International Federation of Accountants

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Committee: IAASB Consultative Advisory Group

Meeting Location: Dubai

Meeting Date: March 9 – 10, 2009

Project Proposal – ISAE 3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information”

A. Objectives of Agenda Item

1. To review key matters identified in the Project Proposal to be discussed by the IAASB at its March 2009 meeting.

B. Background and Relevant Developments

Background

2. Environmental, social and sustainability reports; information systems; internal control; corporate governance processes; and compliance with grant conditions, contracts and regulations, are some of the subjects about which assurance reports have increasingly been demanded. In recognition of this need, the IAASB approved ISAE 3000 and the International Framework for Assurance Engagements (the Assurance Framework) in December 2003.
3. The Assurance Framework defines and describes the elements and objectives of an assurance engagement, and identifies engagements to which IAASB pronouncements apply. It provides a frame of reference for: (a) practitioners; (b) others involved with assurance engagements (such as those engaging a practitioner and the intended users of an assurance report), and (c) the IAASB in its development of ISAs, ISREs and ISAEs.
4. The Assurance Framework does not establish standards or provide procedural requirements for the performance of assurance engagements. ISAE 3000 on the other hand *"establishes basic principles and essential procedures for all assurance engagements other than audits or reviews of historical financial information covered by ISAs or ISAEs."* Topics dealt with in ISAE 3000 include:
 - ethical requirements
 - quality control
 - engagement acceptance
 - planning
 - using the work of an expert
 - obtaining evidence

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- documentation, and
 - preparing the assurance report.
5. Together, ISAE 3000 and the Assurance Framework replaced ISAE 100, “Assurance Engagements,” which was approved by the IAASB’s predecessor, the IAPC,¹ in June 2000.
 6. ISAE 3000 was not redrafted as part of the IAASB’s Clarity project.

See paragraphs B.2-B.3 of Agenda Item 4-D of the March 2009 IAASB meeting material for a brief discussion of the nature of ISAE 3000 and the Assurance Framework.

Relevant Developments

7. A number of stakeholders, including informal/anecdotal feedback (e.g., discussions with International Ethics Standards Board for Accountants (IESBA) members and staff when IESBA was revising the *Code of Ethics for Professional Accountants* to accommodate assurance engagements) and some national auditing standard setters (NSS) have suggested that practitioners and others may have practical difficulties implementing ISAE 3000.
8. To verify this feedback, a survey about the use of ISAE 3000 was recently sent to the NSS and IFAC Member Bodies in Australia, Brazil, Canada, China, France, Germany, India, Japan, the Netherlands, New Zealand, South Africa, the United Kingdom, and the United States; the TAC nominees on the IAASB; and a number of INTOSAI members and regional bodies.
9. A total of 17 responses were received. Not all respondents expressed an overall opinion about whether ISAE 3000 should be revised, but of the nine who did, all noted their support for the IAASB undertaking this project.
10. A number of respondents from key jurisdictions also commented on the increase in demand for assurance engagements, and noted numerous national equivalents of ISAE 3000, and/or national subject matter-specific standards that have been developed in recent years which are based on, or consistent with, ISAE 3000.

See paragraphs B.6-B.14 of Agenda Item 4-D of the March 2009 IAASB meeting material for further information about calls from stakeholders, the growth in assurance engagements and national standards.

C. Project Objectives and How They Serve the Public Interest

Project Objectives

11. The objectives of this project are to:
 - (a) Revise ISAE 3000: (i) to incorporate enhanced requirements and guidance in the light of relevant concerns raised by stakeholders and the extensive and growing use of

¹ International Auditing Practices Committee.

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ISAE 3000 by professional accountants and NSS around the world, and (ii) to adopt the Clarity drafting conventions; and

- (b) Consider whether, and if so to what extent, separate ISAEs applicable to all assurance engagements are needed to deal with topics such as planning, using the work of experts, and documentation.

How the Project Objectives Serve the Public Interest

Responding to the Needs of the Marketplace

- 12. The project objectives will serve the public interest by ensuring that the extensive and growing use of ISAE 3000 by professional accountants and NSS around the world as outlined above will be supported by a standard that is up-to-date.

Clarity

- 13. As noted above, ISAE 3000 was not redrafted as part of the IAASB's Clarity project. Proposed ISAE 3402,² however, was drafted in the Clarity style. This discrepancy has necessitated a proposed amendment to the IAASB Preface³ to recognize the differing authority attaching to the two styles of ISAEs, which some practitioners and others may find confusing. A number of respondents to proposed ISAE 3402 noted their support for revising ISAE 3000 in the Clarity style.
- 14. Further, as the Explanatory Memorandum to proposed ISAE 3402 noted: "*the IAASB believes that it is appropriate to use the clarity drafting conventions in drafting ISAEs, as it represents IAASB's view of the clearest way of presenting standards so as to distinguish requirements from guidance and promote consistent interpretation and performance by auditors.*"
- 15. The project objectives will serve the public interest by removing any confusion with respect to the authority of ISAEs and by promoting consistent interpretation and performance by practitioners.

Additional ISAEs Applicable to All Assurance Engagements

- 16. When ISAE 3000 was introduced, the IAASB Handbook was restructured. This restructure included setting aside ISAE numbers 3001-3399 for the potential development of additional Standards applicable to all assurance engagements. It was envisaged then that at some time in the future this series may be used for *topic-specific* ISAEs dealing with, for example, planning, using the work of experts, and documentation. These topics are currently dealt with in ISAE 3000 itself, but in a summarized form relative to how they are dealt with in the

² Proposed ISAE 3402, "Assurance Reports on Controls at a Third Party Service Organization."

³ "Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services," issued in December 2007.

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ISAs. It was thought that extended requirements and guidance on key topics may be necessary to promote consistency of practice with respect to evolving assurance engagements. Such a series would be in addition to ISAE numbers 3400-3999, which were set aside for *subject matter-specific* ISAEs dealing with, for example, prospective financial information, controls at a service organization, sustainability reports, disclosures of emissions information, and compliance auditing.

17. At that time (December 2003), the IAASB was unsure of the extent to which the ISAE 3001-3399 series would need to be populated in order for the Board to fulfill its mandate of setting standards in the public interest for assurance engagements beyond audits or reviews of historical financial information. It was expected that this matter would be reviewed when further experience had been obtained with the use of ISAE 3000 both by practitioners applying it, and by the IAASB and NSS referring to it in the development of subject matter-specific standards.
18. Now that five years experience has been gained with the use of ISAE 3000, it is an appropriate time to consider whether, and if so to what extent, separate ISAEs are needed to deal with, for example, planning, using the work of experts, and documentation. The project objectives will therefore serve the public interest by determining whether the summarized form in which extant ISAE 3000 is written is adequate to promote consistency of practice.

D. Outline of the Project

Project Scope

19. The scope of this project is the revision of ISAE 3000.
20. This project will also consider whether, and if so to what extent, separate ISAEs applicable to all assurance engagements are needed to deal with topics such as planning, using the work of experts, and documentation. If it is determined that such ISAEs are needed, an output of this project will be a recommendation as to how the IAASB should develop those ISAEs.
21. This project may also result in conforming amendments to:
 - (a) The Assurance Framework, although, as noted in the Basis for Conclusions for the *IAASB Strategy and Work Program, 2009-2011*, it should not entail revisiting conceptual matters settled at the time that Framework was issued; and
 - (b) Subject matter-specific ISAEs, for example, ISAE 3402.

Major Problems and Key Issues that Will Be Addressed

22. Key matters expected to be dealt with include:

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Extent of Requirements

23. As noted in above, when ISAE 3000 was first introduced, it was envisaged that a series of topic-specific ISAEs may be needed to deal with, for example, planning, using the work of experts, and documentation. The underlying issue here is whether, for key topics, the summarized nature of requirements and guidance currently contained in ISAE 3000 is adequate to ensure a consistent understanding and quality of application. The inclusion of summarized requirements and guidance implicitly assumes the practitioner is relatively *au fait* with the content of the ISAs from which the summaries are extracted. But as the ACCA has pointed out in their response to the Survey mentioned in paragraph 5 above “*knowledge of ISAs can no longer be assumed (as audit exemption affects the profession).*”
24. This matter has been discussed recently by the IAASB in the context of proposed ISAE 3402 and the proposed ISAE on emissions assurance. The Explanatory Memorandum to proposed ISAE 3402 noted that “*the IAASB is of the view that because the engagement seeks to provide reasonable assurance, and therefore is comparable to a financial statement audit, it would be desirable for the proposed ISAE, taken with ISAE 3000, to cover similar matters and at a similar level of detail to the ISAs to the extent practicable and relevant. Alternative ways to achieve this in the proposed ISAE include replicating or adapting relevant requirements from the ISAs when they are appropriate to the scope of the ISAE; or requiring that all ISAs be applied, adapted as necessary in the circumstances of the engagement. ... Further alternatives ... might be to amend ISAE 3000, or to draft further ISAEs dealing with such general matters as are likely to be relevant in all assurance engagements.*”
25. While the Explanatory Memorandum did not seek explicit comment on the extent of requirements and guidance in ISAE 3000, or whether “*further ISAEs*” are needed, some respondents to the exposure draft nonetheless expressed strong views on the matter, for example: the CICA said: “*we feel that just as separate ISAs are needed to deal with these matters in the context of financial statement audits; there should also be separate ISAEs to deal each type of matter in the context of other assurance engagements,*” whereas the ACCA said “*we expressed concern that the IAASB would create a hugely detailed ISAE 3000 that would escalate the cost of assurance engagements and price professional accountants out of the small assurance market.*”
26. This project will need to consider the extent to which it is “*practicable and relevant*” for ISAE 3000, or a series of topic-specific ISAEs “*to cover similar matters and at a similar level of detail to the ISAs.*”

Consultation Paper on Review Engagements

27. In September 2008, the Consultation Paper, “Matters to Consider in a Revision of International Standard on Review Engagements 2400, *Engagements to Review Financial Statements*” was released. It canvasses many fundamental issues about review engagements, such as:
 - Is the concept of a “moderate level of assurance” meaningful for practitioners?

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- To achieve the objective of a review engagement, what factors influence the practitioner's assessment of the work effort required to provide a reasonable basis for reporting the practitioner's conclusion(s) ...?
 - Would the nature, timing and extent of review engagement procedures be significantly different between a review engagement based on performance of procedures without an explicit assessment of risk of misstatement ..., and a review engagement where a risk-based approach is applied to assess and respond to those risks?
 - If the entity does not have internal controls that would prevent or detect occurrence of misstatements ..., what are the implications for the practitioner regarding the entity's internal controls for the purpose of the review?
 - How can a practitioner effectively communicate the concept of a level of assurance that is less than high, as obtained in a review engagement, to the intended readers or users of a review report, so that they will be able to properly estimate the level of confidence they can associate with the review conclusion?
28. The resolution of such issues may be as significant for limited assurance engagements performed under ISAE 3000 as for reviews of financial statements. Therefore, in progressing this project, the Task Force will need to be mindful of IAASB discussions in relation to the Consultation Paper. One respondent to the Survey went so far as to suggest that in light of such issues, ISAE 3000 might best be divided into 2 separate documents, one that is aligned closely with the ISAs and deals with reasonable assurance engagements, and another that is aligned more closely with the ISREs and deals with limited assurance engagements. This suggestion should be considered by the Task Force.
29. Other issues identified in the project proposal include:
- What consequential changes are necessary as a result of the revision of a number of ISAs and adoption of the Clarity drafting conventions since extant ISAE 3000 was issued?
See paragraph D.5-D.6 of Agenda Item 4-D of the March 2009 IAASB meeting material for further discussion.
 - Whether ISAE 3000 should be written from a perspective that contemplates its application by non-accountants.
See paragraph D.13-D.16 of Agenda Item 4-D of the March 2009 IAASB meeting material for further discussion.
 - Whether ISAE 3000 needs more clearly articulated requirements and explanations; additional guidance; and further examples, including example reports, to ensure reasonable consistency in understanding and application of such concepts?
See paragraph D.17-D.19 of Agenda Item 4-D of the March 2009 IAASB meeting material for further discussion.

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- Application of ISAE 3000 in the public sector; restricting the use of the assurance report in certain circumstances; and whether joint reporting with an expert should be allowed.

See paragraph D.20 of Agenda Item 4-D of the March 2009 IAASB meeting material for further discussion.

Impact Assessment Considerations

30. The ACCA in its response to the Survey noted: *“While we see this as an opportunity to produce principles-based standards on a ‘think small first’ basis we also envisage the need for some highly detailed standards where the specific reasonable assurance engagement is carried out by auditors of public interest entities.”* The ACCA also *“expressed concern that the IAASB would create a hugely detailed ISAE 3000 that would escalate the cost of assurance engagements and price professional accountants out of the small assurance market.”*
31. These comments indicate the difficulty of dealing with the issues identified in this proposal in a way that balances the competing imperatives of the cost-benefit equations: the need for robust pronouncements that promote consistent quality on the one hand; and a practical and accessible approach that allows smaller practitioners in particular to continue to provide assurance services in a cost effective manner.
32. The need for, and the nature and form of, any formal impact assessment in this project will be subject to the recommendations of the Task Force charged with undertaking the separate IFAC project on impact assessments. As part of the impact assessment for this project, consideration will be given to the need for field testing any proposals that the project Task Force may develop. In addition, and whether or not a formal impact assessment is undertaken, the project Task Force will need to take particular care to consult widely on the cost-benefit implications of proposed changes to ISAE 3000, and should consider alternative processes, such as publishing a Consultation Paper or holding a roundtable(s), to ensure an appropriately diverse range of stakeholders is actively engaged with the project as it progresses.

E. Implications for Any Specific Persons or Groups

33. The project has particular implications for the following:
 - (a) National standard setters who have adopted ISAE 3000, or use it for purposes of comparison with their own standards.
 - (b) Public sector auditors who frequently undertake compliance and performance audits.
 - (c) Regulators who require assurance with respect to subject matters other than historical financial information.
 - (d) Consulting divisions of accounting firms who provide services that may fall within the definition of “assurance,” but who may not be familiar with the content of ISAE 3000.

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- (e) Non-accounting assurance providers.

F. Development Process, Public Consultation, Project Timetable and Project Output

- 34. The project Task Force will need to closely liaise with other IAASB Task Forces that are undertaking projects that affect, or will be affected by ISAE 3000; in particular, the Task Forces dealing with: ISRE 2400, ISAE 3402, Emissions Assurance, and the project to develop an ISAE on reporting on pro forma financial information in prospectuses.
- 35. As mentioned above under “Impact Assessment Considerations,” the project Task Force should consider processes such as publishing a Consultation Paper or holding a roundtable(s) to ensure an appropriately diverse range of stakeholders is engaged with the project as it progresses. Opportunities for such engagement, including an extended exposure period of six month, have been built into the tentative timetable for the project which anticipates a final revised ISAE 3000 being approved in March 2012.

See paragraph F.2-F.4 of Agenda Item 4-D of the March 2009 IAASB meeting material for further discussion.

G. Resources Required, and Relevant Sources of Information

See Sections G and H of Agenda Item 4-D of the March 2009 IAASB meeting material for information on these topics.

Material Presented – IAASB CAG REFERENCE PAPERS ONLY

Agenda Item 4-D of the March 2009 IAASB
Meeting – Project Proposal – ISAE 3000

<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4615>