



International Federation of Accountants

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Agenda Item R

Committee: IAASB Consultative Advisory Group

Meeting Location: London

Meeting Date: September 14–15, 2010

Assurance Engagements Other than Audits or Reviews of Historical Financial Information - ISAE 3000—Report Back, Issues and IAASB Task Force Proposals

Objectives of Agenda Item

1. The Objectives of this Agenda Item are:
 - (a) To provide a report back on proposals of the Representatives on this project as discussed at the March 2010 CAG Meeting.
 - (b) To obtain the Representatives' views on key issues to be discussed by the IAASB at its September 2010 meeting.

Papers to Be Referred to during Discussion

2. The discussion on this topic will follow the structure of this CAG Paper.

Background

Project Status and Timeline

3. The CAG last considered this project at its March 2009 meeting.
4. The IAASB at its March 2010 and June 2010 meetings discussed a range of conceptual issues and preliminary working drafts of revised ISAE 3000.¹
5. A “first read” of a full draft of proposed revised ISAE 3000 will be discussed by the IAASB at its September 2010 meeting. The IAASB will be asked to approve proposed ISAE 3000 for exposure at its December 2010 meeting.
6. Appendix 1 to this paper provides a project history, including links to the relevant CAG documentation.

¹ International Standard on Assurance Engagements (ISAE) ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

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March 1-2, 2010 CAG Discussion

7. Below are extracts from the draft minutes of the March 2010 CAG meeting,² and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

Report Back on Discussion on Proposed ISAE 3410

Representatives' Comments	Task Force/IAASB Response
EXTENT OF ADAPTED ISA REQUIREMENTS	
Mr. Diomeda noted that ISAE 3000 is a very useful standard. He commented that clarification of various conceptual questions surrounding engagements predicated on either reasonable or limited assurance will be helpful, and will assist further application of ISAEs in assurance engagements performed on different types of subject matter or subject matter information.	Support noted.
Mr. Attolini provided comments from the IFAC SMP Committee, noting that it will be important to keep the revised ISAE 3000 principles-based and also as broad as possible to be able to be applied to many different types of subject matter or subject matter information.	Point accepted – Requirements have been pitched at the broad, principles level, albeit some level of detail is necessary to ensure consistency of application around the world. The IAASB has expressed its satisfaction in general terms with the level at which requirements have been pitched
Ms. Sucher and Ms. Blomme commented that the clarification of misconceptions as described in the agenda material is very welcome, as those misconceptions do exist and they have been evident in assurance engagements undertaken in different environments. Further guidance and clarifications to clear those misconceptions up will be very helpful.	Support noted.

Matters for CAG Consideration

A. Parties to an Assurance Engagement

8. At the March 2010 CAG meeting, a diagram illustrating the roles of the following parties to an assurance engagement was discussed.

² The minutes will be approved at the September 2010 IAASB CAG meeting.

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- (a) The responsible party (then called the “party responsible for the subject matter”);
 - (b) The measurer or evaluator (then called the “party responsible for the subject matter information”);
 - (c) The engaging party;
 - (d) The practitioner; and
 - (e) The intended users.
9. That diagram has been further refined and included in draft proposed ISAE 3000, along with a number of observations the various roles.
10. The diagram and observations, extracted from the draft proposed ISAE 3000, are included as Appendix 2 to this paper.
11. It should be noted that in addition to the terminology changes noted above, the term “attestation engagement” has also replaced the term “direct reporting engagement” since the March 2010 CAG meeting. Appendix 2 uses the revised terminology.

Matters for CAG Consideration

- 1. Do the Representatives agree that this diagram and the related observations are a helpful addition to ISAE 3000?
- 2. Do the Representatives have any suggestions for making the diagram and related observations more useful?

B. Reasonable Assurance and Limited Assurance Engagements

Planned level of assurance

12. The most fundamental distinction between a reasonable assurance engagement and a limited assurance engagement is, of course, the level of assurance the practitioner obtains. In writing the most recent version of draft proposed ISAE 3000, the Task Force has introduced the term “planned level of assurance” which recognizes this fundamental difference
13. The planned level of assurance is defined as
- “(a) In the case of a reasonable assurance engagement, the level of assurance obtained when engagement risk is reduced to an acceptably low level in the circumstances of the engagement as the basis for a positive form of expression of the practitioner’s conclusion; or
 - (b) In the case of a limited assurance engagement, a level of assurance that is meaningful to the intended users which the practitioner plans to obtain by performing procedures that are limited compared with those necessary in a reasonable assurance engagement.”

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14. This definition is central to understanding the differences between the two types of engagement, which are elaborated on further in other parts of the draft proposed ISAE 3000. Using the term planned level of assurance also allows sentences in ISAE 3000 that apply equally to reasonable assurance engagement and limited assurance engagement except for their different levels of assurance to be worded quite simply, e.g., “The practitioner chooses a combination of procedures to obtain the planned level of assurance.”

The Basic Work-flow

15. The basic work-flow to obtain reasonable assurance differs from that to obtain limited assurance. That difference is summarized in Appendix 3 to this paper.
16. One point in relation to the work-flow that has occupied considerable time in Task Force discussions is how to express the need for additional work if information comes to the practitioner’s attention that differs significantly from that on which the determination of planned procedures was based.
17. The Task Force has concluded that because the practitioner in a reasonable assurance engagement needs to reduce engagement risk to a level that is low enough to express a conclusion in the positive form, the appropriate trigger for performing additional procedures is the evaluation, after planned procedures have been performed, of whether the practitioner’s initial assessment of risks remains appropriate. If the assessed risk is higher because of information that has come to the practitioner’s attention, the practitioner will need to respond to that risk by performing additional procedures. This is consistent with how this issue is handled in an audit of financial statements under ISAs.³
18. In the case of a limited assurance engagement, on the other hand, the work-flow is more direct and procedural, as is the trigger for performing additional procedures. That trigger is expressed in as follows:

“If the results of (planned) procedures indicate that a material misstatement is likely to exist, (the practitioner shall) perform such additional procedures as are necessary in the practitioner’s professional judgment until:

- (i) The practitioner is able to conclude that the affected item(s) are not likely to cause the subject matter information to be materially misstated;
- (ii) The practitioner is able to conclude with reasonable assurance that the affected item(s) cause the subject matter information to be materially misstated, or
- (iii) The practitioner determines that the practitioner is unable to form the conclusion in either (i) or (ii) above and that therefore a scope limitation exists.”

³ See in particular ISA 330, *The Auditor’s Responses to Assessed Risks*, paragraph 25.

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Matters for CAG Consideration

3. Do the Representatives agree that the definition of planned level of assurance appropriately captures the essential difference between a reasonable assurance engagement and a limited assurance engagement?
4. Do the Representatives agree with the work-flow described in Appendix 3? In particular, do the Representatives agree with the different approaches for reasonable assurance and limited assurance engagements with respect to performing additional procedures when information has come to the practitioner's attention that differs significantly from that on which the determination of planned procedures was based?

C. Professional Accountants and Others

19. A contentious issue has been determining the conditions under which ISAE 3000 should be available for use by non-accountants. This issue was raised in the Consultation Paper on greenhouse gases⁴ but has broad application to all ISAEs. The IAASB has therefore decided that the general conditions for using ISAEs should be set in ISAE 3000.⁵
20. At its June 2010 meeting, the IAASB discussed a Task Force proposal for ISAE 3000 to acknowledge that it is written for professional accountants, but to not attempt to limit its application to only professional accountants and their public sector equivalents, as does extant ISAE 3000. Rather, the proposal required that anyone who uses ISAE 3000 should:
 - (a) Apply quality control and ethical standards that are at least as demanding as ISQC 1⁶ and the International Ethics Standards Board for Accountants' (IESBA) Code,⁷ respectively, and
 - (b) Disclose which standards which have been applied, and if they are not ISQC 1 and the IESBA Code, the practitioner's report should state that in the practitioner's professional judgment those standards are at least as demanding as ISQC 1 and the IESBA Code..
21. Issues raised by the IAASB, which it asked the Task Force to consider, included:
 - Whether practical steps can be taken to prevent non-accountants from inappropriately using ISAE 3000, e.g., whether in the absence of an international monitoring

⁴ Consultation Paper *Assurance on a Greenhouse Gas Statement*, issued in October 2009

⁵ Subject matter-ISAEs may impose additional conditions if appropriate.

⁶ ISQC 1, *Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

⁷ IESBA *Code of Ethics for Professional Accountants*

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mechanism, it is practical to expect IFAC member bodies to take action against non-accountants who inappropriately cite ISAE 3000;

- The difficulty of assessing whether any particular national or regional ethical standard or the standards of another profession are “at least as demanding” as ISQC 1 and the IESBA Code;
- Whether compliance with quality control and ethical standards that are at least as demanding as ISQC 1 and the IESBA Code would allow an assurer to claim compliance with ISQC 1 and the IESBA Code by default, which would therefore negate the apparent flexibility being allowed for;
- The role of disclosures in the assurance report if ISQC 1 or the IESBA Code is not used;
- The applicability of ISAE 3000 to public sector assurers, many, but not all, of whom follow ISQC 1 and the IESBA Code; and
- Whether the desired level of flexibility could be introduced via the application material rather than the requirements.

22. Having considered these matters, the Task Force has drafted the version of proposed ISAE 3000 that will be considered at the September IAASB meeting on the basis described in Appendix 4.

Matters for CAG Consideration

5. Do the Representatives agree with how this issue has been handled, as described in Appendix 4?

Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Agenda Item 6-B of the September 2010
IAASB Meeting – Draft of Proposed
Revised ISAE 3000, *Assurance
Engagements Other than Audits or Reviews
of Historical Financial Information*

<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5686>

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Appendix 1

Project History

Project: Proposed revised ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

Summary

	CAG Meeting	IAASB Meeting
Project Commencement	March 2009	March 2009
Development of Proposed International Pronouncement (up to Exposure)	March 10 September 10	June 09 December 09 March 10 June 10 September 10
Exposure – Planned for December 2010	-	-

CAG Discussions: Detailed References

Project Commencement	<u>March 2009</u> See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4655 See CAG meeting minutes (part of Agenda Item G of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5589 See report back on March 2009 CAG meeting: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5265 See meeting minutes of report back on March 2009 CAG meeting in Agenda Item H of draft minutes for the March 2010 meeting distributed for approval at this CAG meeting (Agenda Item B)
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Development of Proposed International Pronouncement (Up to Exposure)	<p><u>March 2010</u></p> <p>See IAASB CAG meeting material:</p> <p>http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5266</p> <p>See CAG meeting minutes in Agenda Item H of draft minutes for the March 2010 meeting distributed for approval at this CAG meeting (Agenda Item B)</p> <p>See report back on March 2010 CAG meeting in paragraph 7 of this CAG paper.</p>
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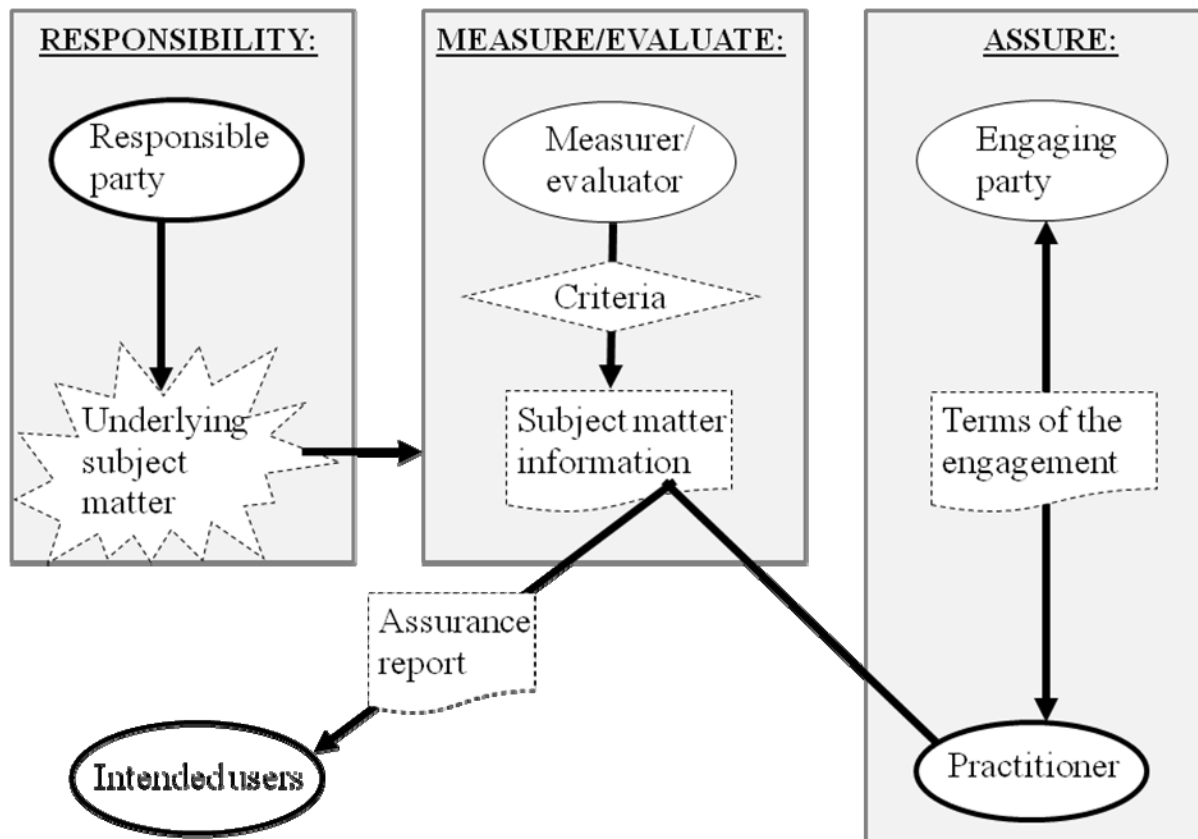
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Appendix 2

The Parties to an Assurance Engagement

1. All assurance engagements have at least three parties: the responsible party, the practitioner, and the intended users. Depending on the engagement circumstances, the roles of the measurer or evaluator and of the engaging party may also be assumed by one of these parties or by another party(ies).



2. The above diagram illustrates how the following roles relate to an assurance engagement:
 - (a) The responsible party is responsible for the underlying subject matter.
 - (b) The measurer or evaluator uses the criteria to measure or evaluate the underlying subject matter resulting in the subject matter information.
 - (c) The engaging party agrees the terms of the engagement with the practitioner.
 - (d) The practitioner obtains sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other

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than the responsible party about the outcome of the measurement or evaluation of an underlying subject matter against criteria.

- (e) The intended users make decisions on the basis of the subject matter information. The intended users are the individual(s) or organization(s), or class(es) thereof for whom the practitioner prepares the assurance report.

3. The following observations can be made about these roles:

- Every assurance engagement has at least a responsible party and intended users, in addition to the practitioner.
- The practitioner cannot be the responsible party, the engaging party or an intended user.
- In a direct engagement, the practitioner is also the measurer or evaluator.
- In an attestation engagement, the responsible party, or someone else, but not the practitioner, can be the measurer or evaluator.
- Where the practitioner has measured or evaluated the underlying subject matter against the criteria, the engagement is a direct engagement. The character of that engagement cannot be changed to an attestation engagement by another party assuming responsibility for the measurement or evaluation, for example, by the responsible party attaching a statement to the subject matter information accepting responsibility for it.
- The responsible party can be the engaging party.
- In many attestation engagements the responsible party may also serve as the measurer or evaluator, and as the engaging party. An example is when an entity engages a practitioner to perform an assurance engagement regarding a report it has prepared about its own sustainability practices. An example of when the responsible party is different from the measurer or evaluator, is when the practitioner is engaged to perform an assurance engagement regarding a report prepared by a government organization about a private company's sustainability practices.
- In an attestation engagement, the measurer or evaluator ordinarily provides the practitioner with a written representation about the subject matter information. In some cases, the practitioner may not be able to obtain such a representation, for example, when the engaging party is not the measurer or evaluator.
- The responsible party can be one of the intended users, but not the only one.
- The responsible party, the measurer or evaluator, and the intended users may be from different entities or the same entity. As an example of the latter case, in a two-tier board structure, the supervisory board may seek assurance about information provided by the executive board of that entity. The relationship between the responsible party, the measurer or evaluator, and the intended users needs to be viewed within the context of a specific engagement and may differ from more traditionally defined lines of responsibility. For example, an entity's senior management (an intended user) may engage

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a practitioner to perform an assurance engagement on a particular aspect of the entity's activities that is the immediate responsibility of a lower level of management (the responsible party), but for which senior management is ultimately responsible.

- An engaging party that is not also the responsible party can be the intended user.

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Appendix 3

Summary of the basic work-flow for reasonable assurance and limited assurance engagements

	REASONABLE ASSURANCE	LIMITED ASSURANCE
Initial steps	By and large, the same requirements apply to both types of engagement regarding engagement acceptance, pre-conditions, planning etc.	
Obtain an understanding	The same requirement apply to both types of engagements with respect to obtaining an understanding except that the practitioner in a reasonable assurance engagement is required to include in that understanding a consideration of internal control, which may not be needed in a limited assurance engagement.	
Decide what to do	(a) Based on that understanding, identify what could be incorrectly measured or evaluated, or incorrectly presented, and identify and assess the risks that the subject matter information may be materially misstated. (b) Develop overall responses, and determine the nature, timing and extent of procedures that are clearly responsive to the assessed risks.	Based on that understanding, determine the nature, timing and extent of procedures to be performed to obtain the planned level of assurance.
Do it	Implement overall responses and perform procedures.	Perform procedures.
Consider if need to do more	Based on the procedures performed and the evidence obtained, evaluate whether the assessment of risks remain appropriate.	“If the results of those procedures indicate that a material misstatement is likely to exist, (the practitioner shall) perform such additional procedures as are necessary in the practitioner’s professional judgment until: (i) The practitioner is able to conclude that the affected item(s) are not likely to cause the subject matter information to be materially misstated; (ii) The practitioner is able to conclude with reasonable assurance that the affected item(s) cause the subject matter information to be materially misstated, or (iii) The practitioner determines that the practitioner is unable to form the conclusion in either (i) or (ii) above and that therefore a scope limitation exists.”
Further steps	By and large, the same requirements apply to both types of engagement regarding accumulating errors, evaluating the sufficiency and appropriateness of evidence, forming the conclusion etc.	

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Appendix 4

Application of ISAE 3000 by Non-accountants

1. The following paragraphs are included in the Introduction section at the very start of the draft:

“This ISAE is premised on the basis that:

- (a) The firm of which the practitioner performing the engagement is a member is subject to ISQC 1 or to national requirements regarding quality control for firms that are at least as demanding;⁸ and
- (b) The members of the engagement team and the engagement quality control reviewer (if any) are subject to Parts A and B of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (the IESBA Code), or other professional requirements, or requirements in law or regulation, that are at least as demanding.

Quality control within firms that perform assurance engagements, and compliance with ethical principles, including independence requirements, are widely recognized as being an integral part of the framework supporting high quality assurance engagements that are in the public interest. Professional accountants in public practice will be familiar with such requirements as part of their professional qualifications. If a competent practitioner other than a professional accountant in public practice chooses to represent compliance with this or other ISAEs, it is important to recognize that this ISAE includes requirements that reflect the premise in the preceding paragraph regarding ISQC 1 and the IESBA Code, or national requirements that are at least as demanding.”

2. The engagement partner is required to “be a member of a firm that applies ISQC 1, “or national requirements that are at least as demanding.” This wording is the same as that used in the ISAs.
3. The practitioner (which includes the engagement team) is required “comply with Parts A and B of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (the IESBA Code) related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.”
4. The assurance report is required to state that “the firm of which the practitioner is a member applies ISQC 1” and “the practitioner complies with the independence and other ethical

⁸ International Standard on Quality Control (ISQC) 1, “Quality Control for Firms that Perform Audits and Reviews of Financial Statements.”

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requirements of the IESBA Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.”

5. The option included in the previous draft for the assurance report to cite other professional requirements, or requirements imposed by law or regulation with respect to quality control or ethics, accompanied by a statement that in the practitioner’s professional judgment, those requirements are at least as demanding as ISQC 1 and the IESBA Code, respectively, has not been included in this draft.