

**Meeting:** IAASB Consultative Advisory Group  
**Meeting Location:** New York  
**Meeting Date:** September 11, 2012

# Agenda Item D

## Assurance Engagements other than Audits or Reviews–ISAE 3000

### Objectives of Agenda Item

1. To obtain the Representatives' views on the significant matters to be discussed by the IAASB at its September 2012 meeting relating to ISAE 3000.<sup>1</sup>

### Papers to Be Referred to during Discussion

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

### Project Status and Timeline

3. ISAE 3000 was last discussed by the CAG in September 2010.<sup>2</sup> The IAASB issued an Exposure Draft in April 2011, which resulted in the receipt of 57 comment letters prior to the closing of the comment period in September 2011. All comment letters are available at [www.ifac.org/publications-resources/isa-3000-revised-assurance-engagements-other-audits-or-reviews-historical-fi](http://www.ifac.org/publications-resources/isa-3000-revised-assurance-engagements-other-audits-or-reviews-historical-fi).
4. Appendix 1 to this paper provides a project history, including links to the relevant CAG documentation.

### Matters for CAG Consideration

#### *Section I - Overview of Respondents comments*

5. Respondents' comments focused on several key matters:
  - (a) Conceptual issues beyond the scope of the project (see Section II);
  - (b) Inclusion of direct engagements (see Section III);
  - (c) The definition of reasonable and limited assurance, and the differences between these levels of assurance (see Sections IV and V);
  - (d) The content of the assurance report (see Section VI)
  - (e) Misstatements, in particular how the concept of misstatements applies to attestation and direct assurance engagements; and
  - (f) Application of ISAE 3000 by non-practitioners.

<sup>1</sup> Proposed International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*

<sup>2</sup> See [http://www.ifac.org/sites/default/files/meetings/files/5695\\_0.pdf](http://www.ifac.org/sites/default/files/meetings/files/5695_0.pdf)

6. This remainder of the CAG Paper addresses only the first four issues listed above (items (a) to (d)) as these are the most pivotal issues to the development of the final standard (planned for approval in April 2013). Accordingly, the CAG will have a further opportunity to discuss any remaining issues at its April 2013 meeting. Issues (a) and (b) were the subject of discussion at the IAASB meeting in June 2012.<sup>3</sup>

## *Section II - Conceptual Issues Beyond the Scope of the Project*

### Background and Comments Received

7. Extant ISAE 3000 was approved by the IAASB in December 2003. At the time of its release, the IAASB acknowledged that assurance services are an evolving field and, accordingly, decided that ISAE 3000 should be kept under review. This resulted in the approval of a project proposal in March 2009, which was informed by a survey of certain National Standard Setters and IFAC member bodies.
8. The main objectives of the project are: (i) to incorporate enhanced requirements and guidance in the light of experiences with extant ISAE 3000 and the extensive and growing use of ISAE 3000 by professional accountants and NSS around the world, and (ii) to adopt the clarity drafting conventions. The project proposal noted that conforming amendments may be needed to the International Framework for Assurance Engagements (Framework) although it should not entail revisiting conceptual matters settled at the time that Framework was issued although some clarification of conceptual matters may be necessary.
9. Despite the IAASB's intentions, some respondents made comments on the fundamental concepts of assurance, indicating some desire for a more comprehensive evaluation of the concepts of assurance and the content of ISAE 3000. These commentators variously suggested that the focus of the project should be on further developing the Framework rather than ISAE 3000,<sup>4</sup> that ISAE 3000 should not be a stand-alone standard,<sup>5</sup> that all significant assurance concepts and definitions should be defined for all International Standards in the Framework,<sup>6</sup> and that the conforming amendments to the Framework should be separately exposed.<sup>7</sup>

### IAASB Response

10. The IAASB, while not under-estimating the importance of these comments, believes that taking up these suggestions would mean effectively restarting the project. Such a project would delay the IAASB's work in the assurance realm for a substantial period of time – even though the IAASB acknowledged the need to embrace innovation to maintain the role and relevance of assurance services in an evolving world in its *Strategy and Work Program 2012-2014*.
11. The IAASB viewed suggestions regarding the Framework as leading to fundamental change in its purpose, would be difficult to reconcile with its non-authoritative status, and may also inhibit innovation.

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<sup>3</sup> The June 2012 IAASB papers on this topic, and an extract from the draft IAASB minutes from that meeting, were distributed to the CAG on June 8<sup>th</sup> for reference only.

<sup>4</sup> AUASB

<sup>5</sup> APB

<sup>6</sup> ACCA

<sup>7</sup> ICAEW, EBA and ACCA

The IAASB also noted that neither the Preface<sup>8</sup> nor the Statements of Membership Obligation<sup>9</sup> require use of the Framework – meaning that any definitions or terminology would need to be duplicated in the IAASB’s authoritative literature.

12. It is also noted that extant ISAE 3000 is extensively used and is working effectively in many jurisdictions around the world and that most respondents were, on balance, supportive of the main proposals in ED-3000. Accordingly, the IAASB believes that the project is scoped correctly and does not need to address fundamental concepts that are not causing difficulty in practice. Further, making ISAE 3000 no longer stand alone would mean that the IAASB would not have a standard applicable to assurance engagements on all types of subject matters. Therefore, the IAASB would need to issue a subject matter specific standard to meet each demand for a standard and practitioners would be left with no international standard to perform engagements for which a subject matter specific standard does not already exist. This would be a significant step back in the IAASB’s efforts to enhance the role, relevance and quality of assurance services in an evolving world.
13. Accordingly, the IAASB agreed to not re-evaluate conceptual issues that were scoped out of the project from the beginning. In particular, the IAASB noted that relatively few comments received supported fundamental changes, and to further delay the project on the basis of these comments is not considered to be in the public interest. The IAASB also noted that the recent finalization of ISAE 3410<sup>10</sup> and ISRE 2400 (Revised)<sup>11</sup> enabled the Task Force and IAASB to leverage the lessons learnt from finalizing those two standards.

#### **Matter for CAG Consideration**

1. Representatives are asked to share their views on the IAASB’s decision to reconfirm the direction of the project to revise ISAE 3000, which was supported by all but a few respondents.

### *Section III - Inclusion of Direct Engagements*

#### **Background and Comments Received**

14. ED-3000 covers both attestation engagements and direct engagements. These are defined in paragraph 8 of Agenda Item D.1 as:

Attestation engagement—An assurance engagement in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. A party other than the practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the practitioner in the assurance report.

Direct engagement—An assurance engagement in which the practitioner measures or evaluates the underlying subject matter against the criteria and the practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report.

<sup>8</sup> *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*

<sup>9</sup> [www.ifac.org/sites/default/files/downloads/Statements\\_of\\_Membership\\_Obligations.pdf](http://www.ifac.org/sites/default/files/downloads/Statements_of_Membership_Obligations.pdf)

<sup>10</sup> ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

<sup>11</sup> Proposed ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

15. Respondents were asked to consider whether ED-3000 properly defines, and explains the difference between, direct engagements and attestation engagements and contains objectives, requirements and other material appropriate to both. The majority of respondents generally supported the definitions and material in ED-3000 for both direct and attestation engagements, subject to minor clarifications and enhancements.
16. However, some<sup>12</sup> respondents expressed the view that ED-3000 was difficult to read and interpret in practice due to the inclusion of both attestation engagements, which are more commonly understood by practitioners, and direct engagements in a single standard. These respondents recommended that direct engagements be dealt with in a separate standard. Others did not explicitly raise the separation of attestation and direct engagements, but commented that they found the requirements and guidance pertaining to direct engagement to be insufficiently tailored. For example, specific comments were raised from many<sup>13</sup> respondents with respect to the application of the concepts of misstatements and the independence of the practitioner to direct engagements.

#### IAASB Response

17. The IAASB agreed with the majority view of respondents that both direct and attestation engagements should be retained in ISAE 3000. In particular, the IAASB noted that separating direct engagements would be inefficient and costly, and would deny the IAASB the opportunity to learn from public sector direct engagements. Further, the continued inclusion of direct engagements supports the development of innovative assurance engagements applicable to any underlying subject matter.
18. The Task Force acknowledges that continuing to include direct engagements in ISAE 3000 may require further tailoring, and will not address the comments regarding the readability of the standard. However, the Task Force will explore whether the material on direct engagements can be more clearly differentiated from that relevant to attestation engagements by, for example, using a columnar approach similar to that used in ISAE 3410.
19. Representatives are asked to note that the Task Force has deferred the discussion of other comments made on direct engagements, including respondents' on the application of the objective to direct engagements, definitions of misstatements and other comments made, until the December 2012 IAASB meeting to permit further study.

#### Matter for CAG Consideration

2. Do Representatives support the IAASB's view that material addressing direct engagement should continue to be included in ISAE 3000?

<sup>12</sup> ACAG1, ACCA, AICPA and KPMG.

<sup>13</sup> AASB, ACAG, ACCA, AGBC, AGC, AGM, AGO, AGQ, AGSA, AICPA, AUASB, CIPFA, CGA, CMA-Canada, IBE-IRE, ICAP, ICPAS, IRBA, KPMG, MIA, NBA, NOREA, NZAASB, PAS, IFAC SMP and WAO.

#### Section IV - Definitions of Reasonable and Limited Assurance

##### Background and Comments Received

20. ED-3000 defines reasonable assurance (RA) and limited assurance (LA) as:

Reasonable assurance engagement—An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion. The practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter.

Limited assurance engagement—An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement. The practitioner's conclusion is expressed in a form that conveys that, 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. The set of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful to the intended users. The limited assurance report communicates the limited nature of the assurance obtained.

21. Respondents' comments on the definitions of RA and LA showed that the majority support for the both definitions,<sup>14</sup> although commentators suggested, amongst other responses, that the definition of RA should be linked to a "high but not absolute level of assurance"<sup>15</sup> and the definition of LA was too dependent on user needs, which may lead to inconsistent application.<sup>16</sup> Other respondents were broadly supportive of the definitions, but suggested that ISAE 3000 needed further requirements and guidance to better illustrate the differences between the two levels of assurance or that examples of LA engagements were needed to help illustrate the effect of the definitions (see Section V below)<sup>17</sup>.

##### Task Force Response

22. At its June 2012 meeting, the IAASB asked the Task Force to further reflect on the definition, and particularly consider how practitioners address the challenges of limited assurance under extant ISAE 3000.
23. The Task Force agreed with respondents who supported the definition of both RA and LA, but also agreed that elements of the definition of LA needed additional application material to assist in differentiating RA and LA engagements, and to promote consistent application of the standard. Accordingly, the Task Force proposes to include:

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<sup>14</sup> ACAG1, ACAG2, AGC, AGO, ASSIREVI, AUASB, CAASB, CMA-CANADA, CNDCEC, Deloitte, DFSA, EFAA, GTI, HKICPA, HOTARAC, IBE-IRE, ICAP, ICPAS, IDW, IRBA, JICPA, J. Maresca, KPMG, LRQA, MIA, PAS, RSM, SAICA, IFAC SMP, NAO-UK, WAO, ZICA

<sup>15</sup> AICPA, EYG, NBA, NOREA, IFAC SMP

<sup>16</sup> AICPA, EYG, FSR, GAO

<sup>17</sup> EFAA, FAR, FSR, NBA, NOREA

- A new paragraph to illustrate some of the differences between RA and LA (**paragraph A1a in Appendix 4**). This paragraph illustrates how the nature and extent of procedures may vary between RA and LA and is drawn from the recently approved ISAE 3410.
  - A revised paragraph dealing with the concept of “assurance that is meaningful to the intended users” (**paragraph A2 in Appendix 4**). The revisions to this paragraph provide greater clarity on the assurance that is acceptable for LA by emphasizing that the assurance must be, at a minimum, “clearly more than inconsequential.” The paragraph also now includes enhanced material on the characteristics of the intended users and their information needs, as well as the practical limitations of time and costs.
24. The Task Force does not support the introduction of quantitative terms to the definition such as “high” for RA or “moderate” for LA. The Task Force noted that it was not ordinarily possible for a practitioner to assess the level of assurance in quantitative terms, and the determination of the level of assurance obtained requires professional judgment.

**Matter for CAG Consideration**

3. Do Representatives believe that the Task Force’s proposed changes are responsive to the calls for additional material to better explain the definitions of LA and RA?

*Section V - Work Effort for Reasonable and Limited Assurance*

Background and Comments Received

25. ED-3000 has a number of requirements which require a different “work effort,” that is, requirements that direct the practitioner to perform procedures, for RA and LA. For example, ED-3000 requires a risk assessment for RA but not for LA, and RA requires more persuasive evidence than LA to support the practitioner’s conclusion. The relevant paragraphs from ED-3000 are included in Appendix 3.
26. Respondents<sup>18</sup> broadly supported for the requirements and application material relative to RA and LA. However, respondents also suggested changes such as:
- Amendments to the requirement that direct the practitioner in an LA engagement to perform additional procedures when issues which could result in possible material misstatements arise<sup>19</sup> (known as the “trigger”) — A particular concern was whether the wording in ED-3000 would force practitioners to perform procedures even when the risk of material misstatement is remote, due to the use of the phrase “If...the subject matter information may be materially misstated” in paragraph 42(c).
  - Requiring an assessment of internal controls under LA — Many respondents<sup>20</sup> noted that an understanding of internal controls was needed for LA as well as RA, although it was noted

<sup>18</sup> ACAG, AGC, AGO, AGQ, AGSA, AUASB, CAASB, CGA, CMA-CANADA, CNDCEC, Deloitte, DFSA, EYG, FAR, GTI, HKICPA, HOTARAC, IBR-IRE, ICAP, ICPAS, IRBA, JICPA, J. Maresca, NZAASB, PAS, RSM, SAICA, IFAC SMP

<sup>19</sup> IDW, KPMG, SRA

<sup>20</sup> AGBC, AGC, AOB, CIPFA, CGA, CMA-CANADA, CNDCEC, DFSA, FAR, FSR, HoTARAC, ICAEW, ICAP, ICPAS, J. Maresca, LRQA, MIA, NBA, NZAASB, PWC, RSM, SAICA

that this should be at a high level, or be restricted to certain procedures, in keeping with the lower level of assurance embodied in LA.

- Enhancing the description of the work effort required under LA — Several respondents<sup>21</sup> believed that the work effort and associated requirements and application material needed to be better distinguished between RA and LA; and
27. These comments, taken in aggregate, indicate a broad belief that further effort is needed by the IAASB to distinguish RA and LA and to enhance the work effort requirements and guidance.

#### Task Force Response

28. The Task Force agreed with respondents that the work effort for RA and, particularly, LA requires further consideration by the IAASB. Accordingly, the Task Force is proposing a number of significant changes to the salient paragraphs (see Appendix 4, paragraph 37-42).
29. The key changes to these paragraphs are:
- Enhancing the “risk aware” approach for LA engagements when developing an understanding of the entity (see Appendix 4, paragraph 37(b)) – this was achieved by amending the requirement so that practitioners need to look for “what might go wrong.” Also, the Task Force restructured the requirements to make a more logical flow for both RA and LA.;
  - Requiring, for LA, that the practitioner consider the process used to prepare the subject matter information (see Appendix 4, paragraph 37a(b)). In proposing this requirement, the Task Force believes that this will enable practitioner in LA engagements to be better informed about how the measurer/evaluator prepared the subject matter information, without requiring a full understanding of internal control relevant to the engagement as is required for RA.
  - Refocusing the “trigger” for additional procedures (see Appendix 4, paragraph 42(c)) – the Task Force noted that the key to the definition of LA (quoted in paragraph 20 above) is the notion that the risk of material misstatement must be acceptable in the circumstances. Accordingly, the Task Force proposes to redraft the trigger so that the requirement to perform additional procedures occurs when the practitioner becomes aware of a matter(s) that causes the practitioner to believe that the risk of material misstatement is not at an acceptable level in the engagement circumstances.”

#### Matter for CAG Consideration

4. What are Representatives’ views on the improvements made to the work effort required for RA and LA?

#### Section V – Preliminary Views on Reporting

##### Comments Received

30. The Task Force has not yet completed the assessment for all the respondents’ comments on the reporting requirements in ED-3000. The preliminary results from the analysis show that:

<sup>21</sup> AGBC, EFAA, KPMG, MIA, NBA, NOREA, SRA

- The majority<sup>22</sup> of respondents supported the requirement to include a summary of the work performed as the basis for the practitioner's conclusion.
- The majority<sup>23</sup> of respondents supported the inclusion of a statement that LA engagements involve more limited procedures than an RA 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.

However, concerns were expressed about various aspects of the reporting requirements, including that the summary of procedures misleads users to thinking that LA is a higher level of assurance than RA due to the more explicit listing of procedures.<sup>24</sup> Other respondents, while supporting the requirements, noted that further guidance was needed on the content of the summary of procedures to drive consistent application.<sup>25</sup>

31. Several respondents<sup>26</sup> also noted that example reports were need to assist in driving consistent reporting behavior across the wide range of possible subject matters, as well as to illustrate how the summary of procedures could be drafted.

#### Task Force Response

32. The Task Force is considering whether and how to provide illustrative reports, as requested by some commentators. The Task Force notes that, because of the wide range of engagement circumstances, example reports may be misused in inappropriate circumstances, and may discourage the innovative practices that the IAASB hopes to foster through ISAE 3000.
33. One possible way to respond to the call for illustrative reports is to provide illustrations of elements of the reports at the appropriate locations in the applications material. This may give guidance where needed, but avoid the risk of practitioners taking an entire report. An alternative is to provide several reports which illustrative widely different engagement circumstances, and so show the flexibility of the standard.

#### Matter for CAG Consideration

5. Do Representatives support the inclusion of illustrative reports in ISAE 3000, or illustrations of elements of the reports in the appropriate sections?

<sup>22</sup> Only three respondents did not support this contention.

<sup>23</sup> Only five respondents did not support this contention.

<sup>24</sup> ACAG, AICPA, AUASB, GTI, EYG,

<sup>25</sup> ACAG1, AGBC, ACCA, , AICPA, CAASB, CMA-CANADA, Deloitte, EYG, FAR, IRBA, IFAC SMP

<sup>26</sup> ACCA, AICPA, CMA-CANADA, EYG, FAR, FEE, IRBA



**Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY**

Proposed International Standard on Assurance Engagements (ISAE) 3000 (Revised), [\[Link to follow\]](#)  
*Assurance Engagements other than Audits or Reviews of Historical Financial Information*

## 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 2010<br><br>September 2010<br><br>March 2011 | June 2009<br>December 2009<br>March 2010<br>June 2010<br>September 2010<br>December 2010<br>March 2011 |
| Exposure – Planned for March 2011                                    | March 2011 – September 2011                        |  |
| Consideration of Respondents' Comments on Exposure                   | March 2012 (Update)<br>September 2012              | June 2012<br>September 2012  |

#### CAG Discussions: Detailed References

|                                |  |
|--------------------------------|--|
| <b>Project Commencement</b>    | <u>March 2009</u><br><br>See IAASB CAG meeting material:<br><a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4655">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4655</a><br><br>See CAG meeting minutes (part of Agenda Item G of the following material):<br><a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5589">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5589</a><br><br>See report back on March 2009 CAG meeting (in paragraph 9 of the following material):<br><a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5265">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5265</a> |
| <b>Development of Proposed</b> | <u>March 2010</u>  |

|  |   |
|--|---|
| <p><b>International Pronouncement (Up to Exposure)</b></p> | <p>See IAASB CAG meeting material:<br/><a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5266">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5266</a></p> <p>See CAG meeting minutes (in Agenda H of the following material):<br/><a href="http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211">http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211</a></p> <p>See report back on March 2010 CAG meeting (in paragraph 7 of the following material):<br/><a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5695">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5695</a></p> <p><u>September 2010</u></p> <p>See IAASB CAG meeting material:<br/><a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5695">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5695</a></p> <p>See CAG meeting minutes (in Agenda Item R of the following material):</p> <p>See draft September 2010 CAG meeting minutes at Agenda Item D.</p> <p>See report back on September 2010 meeting in paragraph 6 of this CAG paper.</p> |
| <p><b>Consideration of Respondents' Comments</b></p>       | <p><u>March 2012</u></p> <p>See IAASB CAG meeting material (Update)<br/><a href="http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-AgendaItem_E6-Project_Updates-v2.pdf">http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-AgendaItem_E6-Project_Updates-v2.pdf</a></p> <p>See CAG meeting minutes (in Agenda Item E of the following material):</p> <p>See draft March 2012 CAG meeting minutes at Agenda Item A.</p>  |

Appendix 2

List of Respondents

| LIST OF RESPONDENTS-EXPOSURE DRAFT OF ISAE 3000 |            |  |
|---|------------|--|
| #   | Abbrev.    | Respondent (57)  |
| <b>IFAC Boards and Committees (1)</b>           |            |  |
| 1.  | IFAC SMP   | SMP Committee  |
| <b>Member Body (19)</b>                         |            |  |
| 2.  | ACCA       | The Association of Chartered Certified Accountants                       |
| 3.  | AICPA      | The American Institute of Certified Public Accountants                   |
| 4.  | CGA        | Certified General Accountants in Canada                                  |
| 5.  | CIPFA      | Chartered Institute of Public Finance and Accountancy                    |
| 6.  | CMA-Canada | The Society of Management Accountants of Canada                          |
| 7.  | CNDCEC     | Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili |
| 8.  | FAR        | FAR - Branschorganisationen för revisorer och rådgivare                  |
| 9.  | FSR        | Foreningen af Statsautoriserede Revisorer                                |
| 10.   | HKICPA     | Hong Kong Institute of Certified Public Accountants                      |
| 11.   | IBR-IRE    | Institut des Reviseurs d'Entreprises/ Instituut der Bedrijfsrevisoren    |
| 12.   | ICAEW      | The Institute of Chartered Accountants in England and Wales              |
| 13.   | ICAP       | Institute of Chartered Accountants of Pakistan                           |
| 14.   | ICPAS      | Institute of Certified Public Accountants of Singapore                   |
| 15.   | IDW        | Institut der Wirtschaftsprüfer   |
| 16.   | JICPA      | The Japanese Institute of Certified Public Accountants                   |
| 17.   | MIA        | Malaysian Institute of Accountants                                       |
| 18.   | NBA        | Nederlandse Beroepsorganisatie van Accountants                           |
| 19.   | SAICA      | The South African Institute of Chartered Accountants                     |
| 20.   | ZICA       | Zambia Institute of Chartered Accountants                                |
| <b>Regulators and Oversight Authorities (4)</b> |            |  |
| 21.   | AOB        | Audit Oversight Board (Malaysia)   |
| 22.   | EBA        | European Banking Authority   |
| 23.   | DFSA       | Dubai Financial Services Authority                                       |
| 24.   | IOSCO      | International Organization of Securities Commissions                     |
| <b>National Auditing Standard Setters (5)</b>   |            |  |
| 25.   | APB        | Auditing Practice Board  |
| 26.   | AUASB      | Australian Auditing and Assurance Standards Board                        |
| 27.   | CAASB      | Canadian Auditing and Assurance Standards Board                          |
| 28.   | IRBA       | Independent Regulatory Board for Auditors                                |
| 29.   | NZAASB     | New Zealand Auditing and Assurance Board                                 |
| <b>Public Sector Organizations (11)</b>         |            |  |
| 30.   | ACAG       | Australasian Council of Auditors-General                                 |

|  |            |  |
|--|------------|--|
| 31.  | AGBC       | Auditor General of British Columbia                      |
| 32.  | AGC        | Office of the Auditor General of Canada                  |
| 33.  | AGM        | Auditor General of Manitoba                              |
| 34.  | AGO        | Auditor General of Ontario                               |
| 35.  | AGQ        | Auditor General of Quebec                                |
| 36.  | AGSA       | Auditor General of South Africa                          |
| 37.  | GAO        | United States Government Accountability Office           |
| 38.  | NAO-UK     | UK National Audit Office                                 |
| 39.  | PAS        | Provincial Auditor Saskatchewan                          |
| 40.  | WAO        | Wales Audit Office                                       |
| <b>Accounting Firms (6)</b>                  |            |  |
| 41.  | DTT        | Deloitte Touche Tohmatsu                                 |
| 42.  | EYG        | Ernst & Young Global                                     |
| 43.  | GTI        | Grant Thornton International Ltd                         |
| 44.  | KPMG       | KPMG IFRG Limited  |
| 45.  | PWC        | PricewaterhouseCoopers                                   |
| 46.  | RSM        | RSM International  |
| <b>Other Professional Organizations (10)</b> |            |  |
| 47.  | ASSIREVI   | ASSIREVI   |
| 48.  | EFAA       | European Federation of Accountants and Auditors for SMEs |
| 49.  | FEE        | Federation des Experts Comptables Europeens              |
| 50.  | HKEX       | The Stock Exchange Hong Kong                             |
| 51.  | HoTARAC    | Australian Dept of Treasury and Finance                  |
| 52.  | IIA-AU     | The Institute of Internal Auditors - Australia           |
| 53.  | ISACA      | Information Systems Audit and Control Association        |
| 54.  | LRQA       | Lloyd's Register Quality Assurance Ltd                   |
| 55.  | NOREA      | NOREA, de beroepsorganisatie van IT-auditors             |
| 56.  | SRA        | SRA  |
| <b>Individuals and Others (1)</b>            |            |  |
| 57.  | J. Maresca | Dr. Joseph S. Maresca                                    |

## Appendix 3

### Extracts from ED-3000

#### Obtaining Evidence

37. The practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to design and perform procedures in order to achieve the objectives of the engagement. In the case of a reasonable assurance engagement, the practitioner's understanding shall include an understanding of internal control over the preparation of the subject matter information when relevant to the underlying subject matter and other engagement circumstances. (Ref: Para. A92–A93)
38. When designing and performing procedures, the practitioner shall consider the relevance and reliability of the information to be used as evidence. If:
- (a) Evidence obtained from one source is inconsistent with that obtained from another; or
  - (b) The practitioner has doubts over the reliability of information to be used as evidence, the practitioner shall determine what changes or additions to procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the engagement.

#### Assurance Procedures

39. The practitioner shall apply assurance skills and techniques as part of an iterative, systematic engagement process.
40. The practitioner shall apply professional judgment to determine the nature, timing and extent of procedures in accordance with the circumstances of the engagement. (Ref: Para. A94–A95)
41. In a reasonable assurance engagement the practitioner shall:
- (a) Based on the practitioner's understanding (see paragraph 37), identify and assess the risks of material misstatement;
  - (b) Respond to assessed risks, by (i) developing and implementing overall responses, and (ii) determining the nature, timing and extent of procedures that are clearly responsive to the assessed risks, and performing those procedures. Those procedures shall involve substantive procedures (including obtaining corroborating information from independent sources, when relevant), and when relevant to the engagement circumstances, tests of the operating effectiveness of controls over the measurer or evaluator's preparation of the subject matter information (in the case of an attestation engagement) or over data used by the practitioner in measuring or evaluating the underlying subject matter (in a direct engagement); and
  - (c) Based on the procedures performed and the evidence obtained, evaluate before the completion of the engagement whether the practitioner's assessment of the risks that the subject matter information may be materially misstated remains appropriate. (Ref: Para. A96)
42. In a limited assurance engagement, the practitioner shall:
- (a) Based on the practitioner's understanding (see paragraph 37) and consideration of areas where material misstatements are likely to arise, determine the nature, timing and extent of procedures to be performed to obtain a level of assurance that is meaningful to the intended users; (Ref: Para. A2)
  - (b) Perform those procedures; and

- (c) If the practitioner becomes aware of a matter(s) that causes the practitioner to believe the subject matter information may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to: (Ref: Para. A96–A98)
  - (i) Conclude that the matter(s) is not likely to cause the subject matter information to be materially misstated; or
  - (ii) Determine that the matter(s) causes the subject matter information to be materially misstated.
- 43. The practitioner shall accumulate uncorrected misstatements identified during the engagement other than those that are clearly trivial. (Ref: Para. A99)
- 44. The practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained in the context of the engagement (including whether it is a reasonable assurance or limited assurance engagement) and, if necessary in the circumstances, attempt to obtain further evidence. The practitioner shall consider all relevant evidence, regardless of whether it appears to corroborate or to contradict the measurement or evaluation of the underlying subject matter against the applicable criteria. If the practitioner is unable to obtain necessary further evidence, the practitioner shall consider the implications for the practitioner's conclusion in paragraph 56. (Ref: Para. A100–A105)

## Appendix 4

### Proposed Changes to ED-3000

A1a. Because the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the practitioner will perform in a limited assurance engagement will vary in nature from, and are less in extent than for, a reasonable assurance engagement. The primary differences between the procedures for a reasonable assurance engagement and a limited assurance engagement are as follows:

- (a) *The emphasis placed on the nature of various procedures:* The emphasis placed on the nature of various procedures as a source of evidence will likely differ, depending on the engagement circumstances. For example, the practitioner may judge it to be appropriate in the circumstances of a particular limited assurance engagement to place relatively greater emphasis on inquiries of the entity's personnel and analytical procedures, and relatively less emphasis, if any, on other procedures and obtaining evidence from external sources than would be the case for a reasonable assurance engagement.
- (b) *The extent of procedures:* The extent of further procedures performed in a limited assurance engagement is ordinarily less than in a reasonable assurance engagement. This may involve:
  - Reducing the number of items to be examined, for example, by reducing sample sizes; or
  - Performing fewer procedures (for example, performing only analytical procedures in circumstances when, in a reasonable assurance engagement, both analytical procedures and other procedures would be performed).
- (c) *The nature of analytical procedures:* In a reasonable assurance engagement, analytical procedures performed in response to assessed risks of material misstatement involve developing expectations that are sufficiently precise to identify material misstatements. By contrast, in a limited assurance engagement, analytical procedures are often designed to support expectations regarding the direction of trends, relationships and ratios rather than to identify misstatements with the level of precision expected in a reasonable assurance engagement.<sup>27</sup>

Further, when significant fluctuations, relationships or differences are identified, appropriate evidence in a limited assurance engagement may often be obtained by making inquiries and considering responses received in the light of known engagement circumstances.

In addition, when undertaking analytical procedures in a limited assurance engagement the practitioner may, for example use data that is more highly aggregated, such as monthly data rather than weekly data, or use data that has not been subjected to separate procedures to test its reliability to the same extent as it would be for a reasonable assurance engagement.

A2. The level of assurance the practitioner plans to obtain is not ordinarily susceptible to quantification, and whether it is meaningful to the intended users is a matter of professional judgment for the

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<sup>27</sup> This may not always be the case; for example, in some circumstances the practitioner may develop a precise expectation based on fixed physical or chemical relationships even in a limited assurance engagement.



practitioner to determine in the circumstances of the engagement, ~~including the practitioner's perception of the information needs of intended users.~~ In a limited assurance engagement, the practitioner performs ~~a set of~~ procedures that ~~is~~ are limited compared with that necessary in a reasonable assurance engagement but ~~is~~ are, nonetheless, planned to obtain ~~a level of~~ assurance that is meaningful to the intended users (see also paragraphs A16–A18, and A85). To be meaningful, the assurance obtained is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential. Factors that are relevant to consider in determining what is meaningful assurance may include, for example:

- The characteristics of the intended users and their information needs. Generally, the greater the consequence to intended users of a material misstatement, the greater the assurance that would be meaningful to them.
- The characteristics of the underlying subject matter and the applicable criteria, and whether there are any relevant subject matter-specific ISAEs.
- Instructions or other indications from the engaging party about the nature of the assurance the engaging party is seeking the practitioner to obtain. For example, the terms of the engagement may stipulate particular procedures that the engaging party considers necessary or particular aspects of the subject matter information on which the engaging party would like the practitioner to focus procedures ~~on~~. However, the practitioner may consider that other procedures are required to obtain sufficient appropriate evidence to obtain meaningful assurance.

~~Whether the practitioner is able to design procedures to address the material misstatements that are likely to arise in the subject matter information. □ Whether the nature and extent of planned procedures is sufficient for the practitioner to conclude about those aspects of the subject matter information to which the procedures are directed.~~

- Generally accepted practice, if it exists, with respect to assurance engagements for the particular subject matter information, or similar or related subject matter information.
- The expectation by intended users that the practitioner will form a conclusion on the subject matter information within a reasonable period of time and at a reasonable cost, recognizing that it is impracticable to address all information that may exist or to pursue every matter exhaustively on the assumption that information is in error or fraudulent until proved otherwise.

#### Understanding the Entity

37. When performing an attestation engagement, the practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:

- (a) For a reasonable assurance engagement,
  - (i) Enable the practitioner to identify and assess the risks of material misstatement in the subject matter information, and
  - (ii) Provide a basis, thereby, for designing and performing procedures to respond to the assessed risks; and
- (b) For a limited assurance engagement,

- (i) Enable the practitioner to identify areas where material misstatements have a greater than acceptable level of risk in the engagement circumstances of occurring, and
- (ii) Provide a basis, thereby, for designing and performing procedures to address those areas and to obtain assurance that is meaningful to the intended users. (Ref: Para. A92–A93)

37a. When obtaining an understanding of the underlying subject matter and other engagement circumstances under paragraph 37, the practitioner shall:

- (a) For a reasonable assurance engagement, obtain an understanding of internal control over preparation of the subject matter information that is relevant to the engagement relevant to the engagement;
- (b) For a limited assurance engagement, consider the process used to prepare the subject matter information.

#### Obtaining Evidence

~~37. The practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to design and perform procedures in order to achieve the objectives of the engagement. In the case of a reasonable assurance engagement, the practitioner's understanding shall include an understanding of internal control over the preparation of the subject matter information when relevant to the underlying subject matter and other engagement circumstances. (Ref: Para. A92–A93)~~

38. When designing and performing procedures, the practitioner shall consider the relevance and reliability of the information to be used as evidence. If:

- (a) Evidence obtained from one source is inconsistent with that obtained from another; or
- (b) The practitioner has doubts over the reliability of information to be used as evidence,

the practitioner shall determine what changes or additions to procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the engagement.

#### *Assurance Procedures*

39. The practitioner shall apply assurance skills and techniques as part of an iterative, systematic engagement process.

40. The practitioner shall apply professional judgment to determine the nature, timing and extent of procedures in accordance with the circumstances of the engagement. (Ref: Para. A94–A95)

41. In a reasonable assurance engagement the practitioner shall:

- (a) Based on the practitioner's understanding (see paragraph 37), identify and assess the risks of material misstatement;
- (b) Respond to assessed risks, by:
  - (i) ~~developing~~ Developing and implementing overall responses; and
  - (ii) ~~determining the nature, timing and extent of~~ Designing and performing procedures that are ~~clearly~~ responsive to the assessed risks, and performing those procedures. In an attestation engagement, when the practitioner's assessment of the risk of material misstatement includes an expectation that controls are operating effectively, or when

procedures other testing of controls cannot alone provide sufficient appropriate evidence, the practitioner's procedures shall include obtaining sufficient appropriate evidence as to the operating effectiveness of relevant controls;

~~Those procedures shall involve substantive procedures (including obtaining corroborating information from independent sources, when relevant), and when relevant to the engagement circumstances, tests of the operating effectiveness of controls over the measurer or evaluator's preparation of the subject matter information (in the case of an attestation engagement) or over data used by the practitioner in measuring or evaluating the underlying subject matter (in a direct engagement); and~~

- ~~(c)~~ Based on the procedures performed and the evidence obtained, evaluate before the completion of the engagement whether the practitioner's assessment of the risks ~~that the subject matter information may be of~~ materially misstate~~ment~~d remains appropriate. (Ref: Para. A96)

~~42. In a limited assurance engagement, the practitioner shall:~~

- ~~(a) Based on the practitioner's understanding (see paragraph 37) and consideration of areas where material misstatements are likely to arise, determine the nature, timing and extent of procedures to be performed to obtain a level of assurance that is meaningful to the intended users; (Ref: Para. A2)~~
- ~~(b) Perform those procedures; and~~
- ~~(c) If the practitioner becomes aware of a matter(s) that causes the practitioner to believe the subject matter information may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to: (Ref: Para. A96–A98)~~
- ~~(i) Conclude that the matter(s) is not likely to cause the subject matter information to be materially misstated; or~~
- ~~(ii) Determine that the matter(s) causes the subject matter information to be materially misstated.~~

~~42. Based on the practitioner's understanding (see paragraph 37(b)), in a limited assurance engagement, the practitioner shall:~~

- ~~(a) identify areas where material misstatements have a greater than acceptable level of risk in the engagement circumstances of occurring; and~~
- ~~(b) design and perform procedures to focus on addressing those areas sufficient to obtain a level of assurance that is meaningful to the intended users.~~

~~42a. If, in a limited assurance engagement, the practitioner becomes aware of a matter(s) that causes the practitioner to believe that the risk of the subject matter information being materially misstated is not at an acceptable level in the engagement circumstances, the practitioner shall design and perform additional procedures to obtain further evidence until the practitioner is able to:~~

- ~~(a) Conclude that the risk of a material misstatement in the subject matter information arising from the matter(s) is acceptable in the engagement circumstances (that is, assurance that is meaningful to the intended users has been obtained; or~~

- (b) Determine that the matter(s) causes the subject matter information to be materially misstated;  
or
- (c) Determine that the practitioner is unable to obtain the evidence to reach the conclusion in (a)  
or make the determination in (b).