

## Proposed ISAE 3410<sup>1</sup>— IAASB Task Force Recommendations in Response to IAASB’s Consideration of Significant Comments on Exposure dated March 2012

### Background

1. The project was approved by the International Auditing and Assurance Standards Board (IAASB) in December 2007.
2. Four international roundtables were held in 2008 and an issues paper, summarizing the matters raised, was presented to the IAASB in December 2008.
3. A Consultation Paper<sup>2</sup> was approved by the IAASB and issued in 2009. It was accompanied by a working draft of a proposed standard dealing with reasonable assurance (RA) engagements only. The working draft received considerable support, but:
  - (a) There was strong support for expanding the scope of the proposed standard to also include limited assurance (LA) engagements; and
  - (b) A small number of other issues were identified as needing further refinement.
3. An exposure draft of proposed ISAE 3410 (ED), covering both RA and LA engagements, was approved in December 2010 and issued in January 2011 with a closing date for comments of June 10, 2011.
4. In December 2011, the Task Force presented the proposed amendments to Exposure Draft ISAE 3410 in response to the 41 respondents<sup>3</sup> comments. The most significant area of comment related to the description of the procedures in the LA report. While expressing broad support for many of the proposed changes, the IAASB pointed out a few areas in the revised draft ISAE which required further clarification. Deliberations around the illustrative LA report were not conclusive, particularly relating to the description of procedures performed. The IAASB provided their comments on the requirements of proposed ISAE 3410 and the illustrative LA report, however, due to time constraints the application material was not discussed.
5. To progress the project to finalization it was agreed that an IAASB teleconference would be held in January 2012 to allow for further input from the IAASB on the concerns identified with the illustrative LA report. The Task Force prepared revised illustrative LA reports and a related Issues Paper for the IAASB to address some of the concerns and comments raised in December 2011. This is discussed further in Section A below.
6. This paper sets out the significant matters raised by the IAASB in response to the agenda papers presented in December 2011, and the illustrative LA Reports presented at the IAASB

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<sup>1</sup> Proposed International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*

<sup>2</sup> Consultation Paper, *Assurance on a Greenhouse Gas Statement*

<sup>3</sup> A list of respondents can be found in the Appendix.

teleconference in January 2012. It also sets out the Task Force's proposals with respect to those matters.

## Significant Matters

### A. LA Report

#### *Description of Procedures in the LA Report*

7. As noted above, concern was expressed by respondents to the ED regarding the description of procedures in the illustrative LA report. In response to this, the Task Force prepared a revised illustrative LA report which was presented at the December 2011 meeting. The Board's views on the latter were mixed. Some IAASB members were of the view that the LA report should only include standardized procedures, with no ability to further tailor. Others were of the view that the LA report should allow the practitioner to use professional judgment in describing the procedures. The IAASB agreed to a teleconference in January 2012 for the Task Force to obtain further input on the concerns raised.
8. For the January 2012 teleconference, three options for the description of procedures in a LA report were presented by the Task Force:
  - (a) A standardized approach, in which only common standardized procedures are listed, with the ability to delete a procedure if it was not performed because it was not relevant to the engagement;
  - (b) A customized approach, which included the same basic procedures as the standardized approach, but allowed for further detail to be provided on procedures performed; or
  - (c) A free-form approach, in which there are no standardized procedures listed. This approach would allow for more narrative on the nature and extent of the procedures performed.

The Task Force proposed that the final ISAE 3410 include two illustrative reports (options (a) and (b) above), which would enable practitioners to select the report most suitable to their circumstances.

9. While some Board members preferred the "free-form" approach, the majority of members agreed with the Task Force that such an approach would add to the concerns that this type of report may result in some users (incorrectly) taking more assurance from a LA engagement than from a RA engagement. This was also consistent with the responses received on the ED. It was therefore concluded that this type of approach would not be further pursued.
10. Some Board members were of the view that there was significant overlap in the area of the standardized procedures in the two proposed reports, and the only difference between them was the "customized" procedures that could be added. A suggestion was made by one Board member, and subsequently supported by several others, that only one customized illustrative LA report should be included, subject to further refinement to the description of the procedures. The Task Force agreed to further explore this option.
11. In further exploring this option, the Task Force has concluded that the illustrative LA report as presented in the revised draft ISAE 3410 (Agenda Item 2-B, Appendix 2, Illustration2) achieves an

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appropriate balance between concerns that some users may take inappropriate assurance when the procedures are described, and the need for transparency, comparability and an understanding of the basis for the practitioner's conclusion. Moreover, this approach would be consistent with market practice and need (for example, regulatory need).

12. Some IAASB members also raised the issue that the general description in the illustrative LA report may appear to indicate RA-type procedures were performed. In response to this, the Task Force has revised the placement of the sentence which highlights that the procedures in a LA engagement are substantially less in scope than those for a RA engagement. The Task Force has also made some other minor adjustments to the standardized procedures listed but notes that in many cases the procedures vary in nature and/or are less in extent than in a RA engagement (see illustrative LA report). The example customized procedures have been amended to include procedures that might ordinarily have been performed had a RA engagement been undertaken.
13. A number of Board members questioned whether the two example customized procedures in the customized LA report were the only ones that could be listed separately. To further demonstrate procedures that could be included, a third example on the understanding of the control environment and information systems relevant to emissions quantification and reporting has been added.
14. In the application material amendments have been made based on the IAASB recommendations to make clear that:
  1. Customization is to elaborate on the standardized procedures already included.
  2. The description of the procedures should not appear to constitute an agreed-upon procedures engagement, or that RA has been obtained.

*Other Matters Raised in the January 2012 Teleconference*

15. It was suggested that the "Independence and Quality Control" section be moved under the "Our Responsibilities" section. The placement of this paragraph has been discussed at previous IAASB meetings and it was agreed that the current placement is the most suitable place for this paragraph. The Task Force is of the view that leaving it as a separate section also highlights to users of the assurance report that the practitioner has had to comply with these requirements in order to carry out the engagement in accordance with ISAE 3410.
16. A Board member raised the matter of compliance with paragraph 49(i) of ISAE 3000<sup>4</sup> which requires "a summary of the work performed" to be included in the LA report. The Task Force is of the view that the illustrative LA report, as revised, continues to comply with this requirement.
17. The Task Force has also revised the requirements in paragraph 74(h)(ii) and application material in paragraphs A140 and A141 to ensure consistency with the illustrative LA report.
18. As this is an emerging and evolving area, the Task Force believes further monitoring of the implementation of the standard, including the reports, will be important.

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<sup>4</sup> ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

**Matters for IAASB Consideration**

1. Does the IAASB agree that the revised requirements (paragraph 74(h)(ii)) and application material (paragraphs A140 and A141) are appropriate?
2. Does the IAASB agree that the proposed illustrative LA report as presented in Agenda Item 2-B (Appendix 2, Illustration 2) should be included in its current form in the final ISAE 3410?

**B. Comparatives**

19. Some Board members and respondents to the ED were of the view that the existing application material on comparative information did not adequately address some of the complexities that could arise in this area. The Task Force has proposed further amendments to the requirements (paragraphs 60 to 61) and application material (paragraphs A115 to A120) to address the concerns raised.

**Matter for IAASB Consideration**

3. Does the IAASB consider that the requirements in paragraphs 60 and 61, and the application material in paragraphs A115 to A120, are appropriate to assist practitioners with their responsibilities regarding comparative information?

**C. “Trigger Point” for Additional Procedures in a LA Engagement**

20. The trigger point for additional procedures when the practitioner becomes aware that there may be a material misstatement was not discussed at the December 2011 IAASB meeting. Respondents<sup>5</sup> to the ED generally agreed that the trigger point for additional procedures in a LA engagement, when the practitioner has identified a possible misstatement, was appropriate. Notwithstanding their agreement that the trigger point was appropriate, some respondents<sup>6</sup> noted that additional application material on the nature and extent of the additional procedures would be useful. Some other respondents<sup>7</sup> did not agree with the trigger point as they either believed it was set at too low a level or that the requirements and related application material were not sufficiently clear.
21. The requirement in proposed ISAE 3410<sup>8</sup> for additional procedures in a LA engagement if the practitioner becomes aware of a possible misstatement is consistent with that in proposed ISRE 2400 (Revised)<sup>9</sup> and in proposed ISAE 3000 (Revised)<sup>10</sup> on the same issue. Extant ISAE 3000

<sup>5</sup> AAP, AICPA, AUASB, CGA, CIPFA, DTT, EY, FEE, F.Irungu, GT, ICAEW, ICAP, ICAS, ICPAS, IRBA, JICPA, KPMG, AOB, RACOPK, RSM, SAICA, WAO

<sup>6</sup> AUASB, CGA, FEE, NBA

<sup>7</sup> BDO, TCR, LRQA, IDW, PwC

<sup>8</sup> Proposed ISAE 3410, paragraph 47L

<sup>9</sup> Proposed ISRE 2400 (Revised), paragraphs ' 57-58

does not contain this requirement for LA engagements. Comments on the EDs for all three projects were discussed at a teleconference between the Task Force Chairs in January 2012. It was acknowledged that many respondents agreed with the proposed requirements across all three projects, and that no changes to the requirements were necessary. However, the ISAE 3410 and ISRE 2400 Task Forces have collaboratively developed subject specific additional application material in this area (see paragraph A107). The ISAE 3000 Task Force will reconsider the need for application material when that project is further progressed.

**Matter for IAASB Consideration**

4. Does the IAASB consider that there is sufficient application material to assist practitioners with understanding when additional procedures would be required once the possibility of a material misstatement has been identified in a LA engagement?

**D. Compliance with ISAE 3000**

22. To comply with proposed ISAE 3410, the requirements of (extant) ISAE 3000 need to be complied with.<sup>11</sup> On exposure, concern was raised that practitioners would be unable to clearly identify the additional requirements of ISAE 3000 which would need to be complied with in an ISAE 3410 engagement. To address this, the Task Force has performed a reconciliation between the requirements of both standards which is presented as Appendix 3 to the proposed Standard, with additional application material explaining the relationship with ISAE 3000 in paragraph A16.

**Matter for IAASB Consideration**

5. Does the IAASB believe that Appendix 3, detailing the requirements in ISAE 3000 which will need to be complied with when carrying out an engagement under the proposed standard, and are not specifically covered, is appropriate?

**E. Other Issues**

23. In December 2011, the IAASB discussed other matters in the proposed ISAE 3410. The significant matters, together with the Task Force's recommendations, are noted below:
  - (a) Some IAASB members had noted that the flow of the paragraphs for "Understanding the Entity and its Environment and Identifying and Assessing the Risks of Material Misstatement" were confusing (paragraphs 22 to 24). Although an assurance engagement is not linear but rather an iterative process, the Task Force agreed that some of the paragraphs could be moved to improve the flow.

<sup>10</sup> Proposed ISAE 3000 (Revised), paragraph 41(c)

<sup>11</sup> Proposed ISAE 3410, paragraph 14

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- (b) The Task Force also made amendments to further clarify the differences in LA and RA procedures around internal control (in paragraph 23L). This was also responsive to the comments received on the ED.
- (c) An IAASB member noted that site visits were not mandatory for RA engagements and expressed the view that the execution of assurance procedures at sites would be an important part of an RA engagement. In the Task Force's view, there are situations where performing assurance procedures at sites would not be necessary, effective or efficient and therefore do not believe that site visits should be made a mandatory procedure. They believe that the application material in paragraphs A70 to A73 sufficiently explains when it would be appropriate to obtain evidence on location at the sites.

**Matter for IAASB Consideration**

- 6. Does the IAASB agree that the Task Force has appropriately addressed the concerns expressed by IAASB members with respect to the other matters noted above?

**F. Proposed Effective Date**

- 24. Subject to the IAASB's approval of the proposed ISAE as a final standard at the March 2012 meeting, the Task Force proposes that the final standard be effective for assurance reports covering periods ending on or after September 30, 2013, which is eighteen months after the date of final approval of the standard. The majority of respondents did not indicate that an extensive period would be necessary when considering the effective date for the ISAE.
- 25. Given the public interest need to harmonize practice in this area internationally as soon as practicable, the Task Force also recommends, subject to the IAASB approval of the ISAE, that the final standard be issued upon Public Interest Oversight Board (PIOB) confirmation of due process without awaiting finalization of the proposed ISAE 3000 (Revised). The Task Force believes that appropriate conforming amendments can be made to the proposed ISAE 3410 in due course once the IAASB approves the revised ISAE 3000.
- 26. As provided for under the IAASB's Preface,<sup>12</sup> early application of the standard would be permitted.

**Matters for IAASB Consideration**

- 7. The IAASB is asked whether it agrees with the proposed effective date for the ISAE.
- 8. Subject to the approval of the final standard, does the IAASB agree that the proposed ISAE 3410 should be issued without awaiting finalization of the revised ISAE 3000?

<sup>12</sup> *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*, Paragraph 17

### Significant Matters Identified by the Task Force

27. In the Task Force's view, the significant matters the Task Force has identified as a result of its deliberations since the beginning of this project, and the Task Force's considerations thereon, have all been reflected in the issues papers presented at the IAASB meetings. In the Task Force's view, there are no significant matters discussed within the Task Force on this project that have not been brought to the IAASB's attention.

### Consideration of the Need to Re-Expose

28. **Agenda Item 2-D** presents a marked-up version of proposed ISAE 3410 showing changes from the ED. In response to comments received on exposure and from the IAASB deliberations, the proposed ISAE 3410 has been strengthened and clarified for the matters raised by respondents and the IAASB, in particular,:

- Additional requirements and application material have been introduced to address the concerns around comparative information;
- The description of procedures in the LA report has been recharacterized to help clarify for users the procedures undertaken in such engagements, and corresponding amendments made to the requirements and application material; and
- Further refinements have been made to the requirements regarding understanding the entity and its internal control, particularly to differentiate the procedures for a LA engagement from those for a RA engagement.

29. The Task Force is of the view that overall the changes reflected in the revised draft ISAE 3410 are in response to matters raised by respondents to the ED, and do not fundamentally change the principles in the ED or represent other changes of substance.

30. With consideration for the above amendments since receiving respondents' comments on the ED, the Task Force believes that re-exposure of ISAE 3410 is not necessary.

#### Matter for IAASB Consideration

9. Subject to IAASB's approval of proposed ISAE 3410, does the IAASB agree that re-exposure is not necessary?

## Appendix

<b>LIST OF RESPONDENTS</b>		
#	Abbrev.	Respondent (41)
<b>Member Bodies (18)</b>		
1.	AAP	Joint Response from Australian Accounting Profession - CPA Au, ICAA, NIA
2.	ACCA	The Association of Chartered Certified Accountants
3.	AICPA	American Institute of Certified Public Accountants
4.	CGA	CGA-Canada
5.	CICA	Canadian Institute of Chartered Accountants
6.	CIPFA	Chartered Institute of Public Finance and Accountancy
7.	DnR	The Norwegian Institute of Public Accountants
8.	FEE	Federation des Experts Comptables Europeens
9.	FSR	Foreningen af Statsautoriserede Revisorer
10.	ICAEW	The Institute of Chartered Accountants in England and Wales
11.	ICAP	Institute of Chartered Accountants of Pakistan
12.	ICAS	The Institute of Chartered Accountants of Scotland
13.	ICJCE	Instituto de Censores Jurados de Cuentas de España
14.	ICPAS	Institute of Certified Public Accountants of Singapore
15.	IDW	Institut der Wirtschaftsprüfer
16.	JICPA	The Japanese Institute of Certified Public Accountants
17.	NBA	The Nederlandse Beroepsorganisatie van Accountants
18.	SAICA	The South African Institute of Chartered Accountants
<b>Accounting Firms (8)</b>		
19.	BDO	BDO Global Coordination B.V.
20.	DTT	Deloitte Touche Tohmatsu
21.	EY	Ernst & Young Global
22.	GT	Grant Thornton International
23.	KPMG	KPMG
24.	PwC	PricewaterhouseCoopers
25.	RACOPK	Riaz Ahmad and Company, Chartered Accountants
26.	RSM	RSM International Limited
<b>Non-accounting GHG Assurers/Consultants/Organisations (4)</b>		
27.	DHC	Douglas Hileman Consulting LLC (United States)
28.	LRQA	Lloyd's Register Quality Assurance Ltd (United Kingdom)
29.	P&P	Planet & Prosperity Ltd (United Kingdom)
30.	TCR	The Climate Registry (United States)
<b>National Auditing/Assurance Standard Setters (4)</b>		
31.	APB	Auditing Practices Board (United Kingdom)
32.	AUASB	Australian Auditing and Assurance Standards Board

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33.	CAASB	Canadian Auditing and Assurance Standards Board
34.	NZICA	New Zealand Institute of Chartered Accountants
<b>Regulators and Oversight Authorities (2)</b>		
35.	AOB	Audit Oversight Board (Malaysia)
36.	IRBA	Independent Regulatory Board for Auditors, South Africa
<b>Individuals(2)</b>		
37.	C. Barnard	Chris Barnard
38.	F. Irungu	Felicitas T Irungu
<b>National Standard Setters - Other (1)</b>		
39.	ANSI	American National Standards Institute
<b>Public Sector Auditors (1)</b>		
40.	WAO	Wales Audit Office
<b>Other Professional Organizations (1)</b>		
41.	IIA	Interim Canadian Board of the Institute of Internal Auditors