

Agenda Item 5-B

ISAE 3000¹— Strategic Review of the Project to Revise ISAE 3000

Background

1. The Project Proposal² for ISAE 3000 contemplated only a “limited” revision of ISAE 3000. The Task Force’s brief was to redraft ISAE 3000 in the clarity format and to clarify certain basic concepts, without fundamentally changing them – a difficult task.
2. The ISAE 3000 Task Force met by teleconference on nine occasions throughout the period July to November and has had two physical meetings during this period. It was not possible to meet as a full Task Force until November 2012 due to schedule clashes. Accordingly, we expect that progress in quarter 4 and beyond will be more rapid as the full Task Force is available.

Discussion

3. In our view, the IAASB’s decision to only undertake a limited revision of ISAE 3000 was reasonable at the time of the project’s approval. However, recent experience with ISAE 3410 and ISRE 2400 has shown that further analysis and development of both limited and reasonable assurance at a conceptual level would be of benefit. The IAASB was able to issue ISAE 3410 and ISRE 2400 as the subject matter of each was known, and the IAASB’s understanding of limited assurance was aided by knowledge of the subject matter of the standard and some common procedures. For ISAE 3000 engagements, the subject matter is unspecified or ‘generic’. Absent the ability to visualize the subject matter and a set of appropriate, context specific requirements, and without a target assurance or risk level, the Task Force has long struggled to describe the necessary work effort to operationalize limited assurance in ‘generic’ circumstances. Further, as the revision of ISAE 3000 is ‘limited,’ as noted in the Project Proposal, the Task Force is not able to significantly clarify issues when to do so would require amending the fundamental concepts on which ISAE 3000 is based.

Guiding Principles for the Task Force

4. We have outlined below the steps that the Task Force can take to complete the project by September 2013. These steps involve some tough decisions, and will not resolve all the issues identified in the project so far, or satisfy all views expressed in the comment letters on the Exposure Draft. Nevertheless, the Task Force believes that they are responsive to the mandate of the Task Force and the Steering Committee prompting.
 - (a) Respond to comments received on the Exposure Draft of ISAE 3000 (ED-3000).
 - The Task Force revised ISAE 3000 in accordance with the Project Proposal, and is finalizing responses to the comments received. Addressing these comments received on exposure should command the Task Force’s highest priority, albeit that the Task Force’s response may be to defer some issues for the IAASB’s future consideration, as

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

² www.ifac.org/sites/default/files/meetings/files/4615.pdf

outlined in Item 6 below. Accordingly, basic issues that were agreed by the IAASB in finalizing ED-3000 and which were broadly accepted by respondents will not be further debated by the Task Force, including the inclusion of direct engagements and the concept of limited assurance being a range rather than a single specific level of assurance.

- (b) Develop two alternatives for addressing limited assurance, and ask for a vote at the December meeting.
- The Task Force believes that there is merit in pursuing two options regarding the work effort for limited assurance. The first will be developed from the version shown to the IAASB in September 2012, and is drafted based on the idea of “an acceptable level of risk in the circumstances” in line with extant 3000. The second option will be based on recent IAASB pronouncements, including ISAE 3410 and ISRE 2400 would use the terms “may”, “likely,” and “not likely” in several key work effort paragraphs without defining “may,” “likely,” and “not likely.”³ Asking the IAASB to express a preference for which option should be further developed will enable the Task Force to move this difficult area forward expeditiously.
- (c) Draw upon knowledge gained in the IAASB’s recent standard-setting activities and the Exposure Draft of ISAE 3000.
- When dealing with issues arising from the comment letters, the Task Force will be informed by the IAASB’s response to similar comments made on ISAE 3410 and ISRE 2400 and deviate only when there is justification for doing so.
- (d) Enhance the material on direct engagements.
- The Task Force believes that the issues around direct engagements are manageable within the September 2013 approval date. This will require some consideration of whether requirements should be pitched at a higher level to enhance their applicability to direct engagements as well as the need for additional application material. Together with the IESBA, the Task Force will consider the comments made by respondents and the IAASB Consultative Advisory Group on the application of the concept of independence in direct engagements, recognizing that direct engagements are permitted under the current IESBA Code. If, at the December 2012 meeting, it becomes clear that progress is more difficult than anticipated, then the Task Force has the alternative of reverting to the language in extant ISAE 3000 as far as is possible. This would not be efficient as the issues raised on direct engagements may still need to be addressed by the IAASB in a subsequent project, particularly given their widespread use, but would enable this project on ISAE 3000 to be brought to completion.
- (e) Address application by practitioners other than professional accountants.
- The Task Force notes that this is a critical question in deciding for whom the IAASB’s standards are written. This question is particularly important for engagements, such as

³ Not defining “likely” and “not likely” is consistent with previous IAASB decisions. However, as described in our Agenda Item 5-A, the ISAE 3000 Task Force is split on whether such definitions are essential to proper interpretation of the proposed requirements for ISAE 3000.

ISAE 3410 engagements, where there is demand from non-‘professional accountants’ to perform certain assurance engagements. Accordingly, the Task Force believes that the ISAE 3000 suite of standards should permit application by non-‘professional accountants’, subject to further strengthening of relevant requirements.

- (f) Progress remaining issues and establish a list of “pending items” that will be referred for consideration under the *2015—2017 Strategy and Work Plan*.
- There are a variety of other matters and issues that have arisen and will continue to arise, but these will be progressed to the extent that they do not delay the project. For example, there were a number of elevations of application material into requirements and material incorporated from the Framework, that can be improved based on respondents’ comments.
 - Other issues, such as those listed below, will be recorded as matters of importance to the IAASB’s future work, but the Task Force will not resolve these as part of the revision of ISAE 3000. These items are those which are harder to resolve and are less likely to improve the quality or consistency of engagements conducted under ISAE 3000:
 - Defer all work on the consequential amendments to the Framework until ISAE 3000 is completed. After the completion of ISAE 3000, the Task Force will recommend an appropriate course of action.
 - Limited consequential amendments to subject matter specific ISAEs. The Task Force believes that the consequential amendments to these standards are manageable (see *Direction for Proposed Consequential Amendments* below).
 - Cease work on any illustrative reports. The Task Force believes that drafting illustrative reports for a standard without a specific subject matter like ISAE 3000 will be practically difficult and of questionable value. We also note that the IAASB may need significant time to fully consider illustrative reports, which therefore may result in a delay in completing ISAE 3000. The Task Force believes that illustrative reports can be prepared by National Standard Setters, IFAC Member Bodies, or other organizations to address common engagements in their jurisdictions.
 - Defer resolution of questions raised by both respondents and members of the Task Force on the scope of ISAE 3000 with respect to historical financial information, including vis-à-vis ISA 805.⁴ The Task Force notes that amending the scopes of various IAASB standards, including ISA 805 and ISAE 3000 to resolve those questions will be time consuming for the IAASB and the Task Force.

⁴ ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

Plan for Future IAASB Meetings

The Task Force's plan for upcoming IAASB meetings is shown in the following table:

Meeting	Planned Agenda for Major Items
December 2012	<ul style="list-style-type: none"> • Resolution of options regarding work effort for limited assurance. • Task Force's proposed responses to comments made on direct engagements, application by non-professional accountants • Finalization of Comment Analysis • Revised proposals on limited assurance
April 2013	<ul style="list-style-type: none"> • Task Force's responses to IAASB input: direct engagements, limited assurance, application by non-professional accountants • Revised drafting on remainder of standard
June 2013	<ul style="list-style-type: none"> • Revised drafting of standard
September 2013	<ul style="list-style-type: none"> • Revised drafting of standard • Task Force's proposals for consequential amendments and way forward for the Framework and ISRE 2400. • IAASB approval

Direction for Proposed Consequential Amendments

The Task Force has not considered the likely level of consequential amendments arising from the finalization of ISAE 3000. The standards affected are listed below, together with a brief outline of the scope of possible consequential amendments.

- ISAE 3400⁵ – In ED-3000, the IAASB concluded that consequential amendments should not be proposed for ISAE 3400. ISAE 3400 has not been updated to take account of developments in other standards, including extant ISAE 3000, since it was issued. Proposing amendments may suggest that the standard has been subject to a more significant update than has been the case.
- ISAE 3402⁶ – Proposed consequential amendments were included in ED-3000. These will be updated by the Task Force before the conclusion of the project and provided to the IAASB in advance of the approval of ISAE 3000. In its Strategy and Work Program 2012-2014,⁷ the IAASB has committed to an implementation review of ISAE 3402 during 2013.
- ISAE 3410 – Proposed consequential amendments were included in ED-3000. These will be updated by the Task Force before conclusion of the project, and provided to the IAASB in advance of the approval of ISAE 3000.

⁵ ISAE 3400, *The Examination of Prospective Financial Information*

⁶ ISAE 3402, *Assurance Reports on Controls at a Service Organization*

⁷ www.ifac.org/sites/default/files/publications/files/IAASB%20Strategy%20and%20Work%20Program%202012-2014-final.pdf

- ISAE 3420⁸ – Proposed consequential amendments were not included in ED-3000 as the finalization of ISAE 3420 was in train. Consequential amendments will need to be developed by the ISAE 3000 Task Force.
- Framework – A decision on consequential amendments to the Framework will be deferred until close to the completion of the project.
- ISRE 2400 – Consequential amendments to ISRE 2400 will depend on the decision on making consequential amendments to the Framework. Accordingly, a decision on consequential amendments to ISRE 2400 will also be deferred.

Matter for IAASB Consideration

1. Does the IAASB support the Task Force's proposed strategic direction and guiding principles for the project?

⁸ ISAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*