

## ISAE 3000 and Direct Engagements

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# Direct Engagements - Introduction

- Commonly carried out by public sector auditors around the world pursuant to legal mandates; Also private sector
- Assess "value for money", management performance, compliance with laws and regulations etc.
- Best practice reports include summaries of the criteria and methodology used by practitioners
- Usually well-received and relied upon by legislatures and often extensively reported on by the media

# Direct Engagements - Introduction

- In an attestation engagement, the measurement/evaluation process and assurance process are clearly separate responsibilities performed by different parties
- In a direct engagement, the measurement/evaluation process and assurance process are always performed by the practitioner and may be a single process
- Evidence on the underlying subject matter and assessment against criteria

# Direct Engagements – Similarities and Differences with Attestation Engagements

## Key Concepts

- Three party relationship for both direct and attestation:
  - Similarity: At least Responsible Party, Practitioner, Intended Users
  - Difference: Practitioner is the first measurer/evaluator rather than the Responsible Party
- Underlying Subject Matter
- Suitable Criteria
- Subject Matter Information / Conclusion
- Assurance obtained by the practitioner

*Distinguished from valuation engagements, compilations etc by assurance component*

## Example of Key Concepts applied to a Financial Statement Audit under ISAs (Attestation)

- Measurer/Evaluator – Management/TCWG
- Underlying Subject Matter [*USM*]– Financial position and performance and cash flows of the entity
- Suitable Criteria – IFRS
- Subject Matter Information [*SMI*] – Financial statements
- Assurance conclusion – Whether the financial statements [*SMI*] present fairly, in all material respects, the financial position, performance and cash flows of [the entity] [*USM*] in accordance with IFRS [*Suitable Criteria*]

# Direct engagement – Value for money in an Emergency Department

- Measurer/Evaluator – the Practitioner
- Underlying Subject Matter – Activity of an emergency department in a hospital
- Suitable criteria – Selected or developed based on regulations and best practice guides regarding the use of public funds
- Subject Matter Information – Measurement/evaluation of the hospital's emergency department against the suitable criteria
- Assurance conclusion – Whether the hospital's emergency department provides value for money or not

# Attestation engagement – Value for money in an Emergency Department

- Measurer/Evaluator – Hospital management
- Underlying Subject Matter – Activity of an emergency department of a hospital
- Suitable criteria – Selected or developed based on regulations and best practice guides regarding the use of public funds
- Subject Matter Information – Measurement/evaluation by management of the hospital's emergency department against the suitable criteria
- Assurance conclusion – whether management's assessment of value for money is appropriate

# Direct Engagement – Examination of the forecasts prepared by the UK Office for Budget Responsibility

## Example 3 in Agenda Item 3-A

- Measurer/Evaluator – Practitioner (National Audit Office)
- Underlying Subject Matter – Economic and fiscal assumptions underpinning the Office for Budget Responsibility's forecasts
- Suitable criteria – 6 criteria stated in report
- Subject Matter Information – Measurement against criteria (see page 8)
- Assurance conclusion (part of subject matter information) – *“In our opinion, based on the criteria in Figure 1, the key economic and fiscal assumptions underpinning the Office for Budget Responsibility's forecasts have been independently arrived at”*

# Direct Engagement – German Assurance Engagements on Projects Applying Information Technology

## Example 4 in Agenda Item 3-A

- Measurer/Evaluator – Practitioner (private sector)
- Underlying Subject Matter – A company’s IT project which resulted in changes to the IT system relevant to financial reporting
- Suitable criteria – applicable legal requirements, including specified elements of an IDW Accounting Principle (IDW AcP FAIT 1)
- Assurance conclusion (part of subject matter information) –  
*“We conclude that, based on the findings of our reasonable assurance engagement, the implementation of this project as part of the company’s IT-based accounting system, if properly applied, ensures compliance with the requirements as to propriety, security and controls pursuant to IDW AcP FAIT 1 stemming from the applicable legal provisions, including those stemming from the German principles of proper accounting.”*

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