

Meeting: IAASB Consultative Advisory Group
Meeting Location: New York
Meeting Date: September 9–10, 2013

Agenda Item

E

Assurance Engagements other than Audits or Reviews–ISAE 3000

Objectives of Agenda Item

1. The objective of this Agenda Item is:
 - To obtain the Representatives’ views on the significant matters to be discussed by the IAASB at its September 2013 meeting relating to proposed revised ISAE 3000.¹
 - To provide a report back to the Representatives on their comments and questions on ISAE 3000 as discussed at the April 2013 CAG Meeting.

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 April 2013. Appendix 1 to this paper provides a project history, including links to the relevant CAG documentation.

April 2013 CAG Discussion

4. Below are extracts from the draft minutes of the April 2013 CAG meeting,² and an indication of how the project Task Force or IAASB has responded to the Representatives’ comments.

Representatives’ Comments	Task Force/IAASB Response
STRATEGIC REVIEW	
Ms. Borgerth noted that, while she would have preferred that conceptual issues were addressed, she understood the pressure on the IAASB agenda and that revision of the Assurance Framework is a	Ms. Mc Cabe responded that the Task Force did not intend to prepare any illustrative reports, but noted that examples of reports were available in ISAE 3410. She added that illustrative reports had,

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

² The minutes will be approved at the September 2013 IAASB CAG meeting.

Representatives' Comments	Task Force/IAASB Response
<p>substantial undertaking. However, she noted that including illustrative reports within the ISAE would enhance adoption of the standard, although it could limit innovation in reporting practices.</p>	<p>in the past, required significant time to reach agreement, and that it would be even more difficult with ISAE 3000 as there is not a specific underlying subject matter. However, she explained that the standard explains the headings that are required in assurance reports and illustrates some of the wording that may be appropriate in different circumstances. She also noted that the Task Force has reviewed several examples of direct reports and expanded the requirements and application material to better address the contents of these reports, which are often lengthy long-form reports. She added that drafting illustrative reports, including outlines, could delay the standard significantly. Prof. Schilder noted that he understood the desire for illustrative reports, but noted that as the underlying subject matter of direct engagements varies significantly, he did not believe that the Task Force would be able to respond to the request for illustrative reports.</p>
<p>Mr. Diomeda and Ms. Blomme supported the preparation of consequential amendments, noting that these amendments are necessary to align ISAE 3000 with other ISAEs. They also noted that the IAASB could collect example reports based on engagements conducted under extant ISAE 3000 to determine if such reports could be of use to practitioners. Mmes. Blomme and De Beer expressed the view that a template of an illustrative report could be used to demonstrate the differences between direct and attestation engagements.</p>	
<p>DIRECT ENGAGEMENTS</p>	
<p>Mr. Stewart asked whether it would meet the definition for an attestation engagement if the responsible party engaged another practitioner to do the measurement or evaluation on their behalf.</p>	<p>Ms. Mc Cabe agreed that this could be done but added that, in this case, the responsible party still has to take responsibility for the measurement or evaluation and the suitability of the criteria. She noted that the responsible party may prefer to engage a practitioner to perform a direct engagement to avoid the need to take responsibility for these matters.</p>
<p>Mr. Diomeda suggested that the ISAE and the Assurance Framework should better distinguish RA from absolute assurance, as it was sometimes difficult to explain to users and regulators the inherent limitations of assurance without a formal document to which to refer. Ms. de Beer added that such misunderstanding could be another example of the expectation gap regarding certain subject matters, such as forward-looking information. She noted that a practical example of this was explained by Mr. Diomeda in a document on a</p>	<p>Ms. Mc Cabe responded that there is a need to explain the limitations of an assurance engagement and the Task Force has addressed this, but the proposed ISAE also explains circumstances where LA may not meet the needs of users. Ms. Mc Cabe also noted that the proposed ISAE precludes a practitioner performing a LA engagement if the practitioner believes that an RA engagement cannot be performed as the preconditions for an assurance engagement, such as the need for suitable criteria, are the same.</p>

Representatives' Comments	Task Force/IAASB Response
<p>specific Italian example, shared with the IAASB staff and Task Force Chair. She suggested that proposed ISAE 3000 (Revised) should include a “health warning” about performing an RA engagement if users expect absolute assurance.</p>	
<p>Messrs. Koktvedgaard and Stewart questioned whether the practitioner’s involvement in selecting or developing the suitable criteria in a direct engagement could affect the practitioner’s independence.</p>	<p>Ms. Mc Cabe noted that, in all assurance engagements, including attestation engagements, the practitioner has to consider the appropriateness of the criteria. Mmes. de Beer and Mc Cabe also noted that, in a direct engagement, the practitioner has to present the criteria in the assurance report and this enables users to consider whether the criteria is appropriate for their purposes. Prof. Schilder noted that direct engagement reports were often long-form reports to enable the criteria to be explained in sufficient detail to enable users to determine the assurance obtained by the practitioner.</p>
<p>Mr. Koktvedgaard suggested that there may be types of measurement or evaluation that would cause the practitioner to no longer be considered independent.</p>	<p>Point not accepted. The practitioner’s independence, as defined in the <i>IESBA Code of Ethics for Professional Accountants</i> (IESBA Code), is unrelated to the underlying subject matter.</p>
<p>APPLICATION BY COMPETENT PRACTITIONERS WHO ARE NOT PROFESSIONAL ACCOUNTANTS</p>	
<p>Mr. Diomeda supported the extension of the application of the ISAE to competent practitioners who are not professional accountants, and asked whether the Task Force position would change when the definition of a professional accountant changes. He also asked if the Task Force’s proposal to require competent practitioners who are not professional accountants to state the ethical and quality control requirements they follow is an attempt to signal to users that the report was not prepared by a professional accountant.</p>	<p>Point accepted. Ms. Mc Cabe responded that the definition of a professional accountant was still under review, but that it would not address the fundamental issue that non-accountants may seek to use proposed ISAE 3000 (Revised).</p> <p>The Task Force notes that the requirement competent practitioners who are not professional accountants to state the ethical and quality control requirements they follow has been included so that users of the assurance report are fully informed of the practitioner’s ethical and quality control requirements.</p>

Matters for CAG Consideration

A. *Removal of Material Specifically Addressing Direct Engagements*

5. At the April 2013 IAASB meeting, and after extensive debate, the IAASB agreed that ISAE 3000 should be drafted to focus on attestation engagements only, but also permit application of the ISAE to direct engagements, subject to appropriate adaptation in the engagement circumstances. In making this decision, the IAASB noted the difficulty in finalizing a standard addressing both attestation and direct engagements in a reasonable time period, and the potential for the final standard to be difficult to apply in practice. However, the IAASB also noted that the Framework applies to both attestation and direct engagements, and amending the Framework to remove direct engagements would be outside the scope of the project to revise ISAE 3000. The IAASB also noted that consideration of any future work on revising the Framework or developing a standard specifically addressing direct engagements can be undertaken, along with consideration of other future projects and actions, when the IAASB deliberates its future Strategy and Work Program.
6. As a result of this decision, the Task Force simplified the ISAE by removing requirements and guidance that was specific to direct engagements, but retained some of the material in the definitions to assist practitioners in distinguishing direct engagements from attestation engagements. The Task Force also redrafted, where necessary, requirements and application material that had been edited to better address direct engagement. While these changes are spread throughout the ISAE, the major changes are as follows:
 - (a) Scope (**Paragraph 2 of Agenda Item E.1**) – Clarification that the ISAE is focused on attestation engagements, but applies also to direct engagements, adapted as necessary in the engagement circumstances. The definition of “direct engagement” has been retained in **paragraph 12(a)(ii)(b) of Agenda Item E.1** to assist users of the ISAE who may not be familiar with direct engagement to understand more about how IAASB literature describes direct engagements and how they are different from attestation engagements;
 - (b) Objective (**Paragraph 10, 12(ta), 12(va), A91B of Agenda Item E.1**) – removal of “Given the purpose and scope;”
 - (c) Work effort (**Paragraphs 37AAA(L) and (R), 37AA(L) and (R), 42AA(L) and 41AA(R), 42BL of Agenda Item E.1**) – deletion of these paragraphs as they only addressed direct engagements;
 - (d) Forming the assurance conclusion (**Paragraph 64, A99B of Agenda Item E.1**) – Removal of direct engagement specific material on accumulating the results of procedures performed;
 - (e) Reporting (**Paragraph 68, A142A, A165 of Agenda Item E.1**) – removal of direct engagement specific material; and
 - (f) Application material – While there are too many changes to list, the most significant changes are removal of describing direct engagements in **paragraphs A4–A6 and the criteria for direct engagements in A10 of Agenda Item E.1.**

Many of these changes resulted in consequential changes elsewhere in the ISAE.

7. The Task Force notes that, as extant ISAE 3000 and the Framework currently apply to direct engagements (albeit without much specific material addressing direct engagements), ED-3000 did

not ask respondents for their views on removing direct engagements from the scope of ISAE 3000. Consequently, any decision that suggests that ISAE 3000 does not cover direct engagements would require careful consideration of the need for re-exposure. The Task Force also notes that few respondents wanted ISAE 3000 to not address direct engagements, rather the focus of commentary was on the specifics of how direct engagements were addressed. Finally, the Task Force does not believe it is in the public interest to allow practitioners to ignore, without any consideration, the strengthened requirements and application material in ISAE 3000 when performing direct engagements.

Matter for CAG Consideration

1. Do Representatives support the IAASB's decision to remove material specific to direct engagements from ISAE 3000, while still permitting ISAE 3000 to be applied to direct engagements, adapted as necessary in the engagement circumstances?

B. Independence in a Direct Engagement

8. At the April 2013 IAASB CAG meeting, a number of Representatives questioned whether the practitioner in a direct engagement is independent, given that they prepare the subject matter information (see paragraph 4 above). The Task Force noted that, while setting independence requirements for assurance engagements is not within the role of the IAASB, the IESBA Code specifically permits direct engagements. The practitioner in a direct engagement is independent of the responsible party and the underlying subject matter itself. The practitioner is not independent of the subject matter information, as the practitioner creates the subject matter information.
9. Nevertheless, in response to Representatives' comments, the Task Force and IAASB staff spoke with the IESBA Planning Committee to ascertain whether the IESBA would consider reflecting further on the issue. The IESBA Planning Committee was inclined to support the commencement of a project to address the independence of a practitioner in a direct engagement in due course, subject to availability of IESBA resources.

Matter for CAG Consideration

2. Do Representatives believe that the IAASB and IESBA should continue to consider the issue of the practitioner's independence in a direct engagement, if the IAASB's engagement standards do not contain material specific to direct engagements?

C. Update on Key Changes to IAASB Since April 2013

10. The IAASB members were asked to provide written comments to the Task Force after the June IAASB meeting based on a draft revised from the April 2013 IAASB meeting. In summary, the key changes the Task Force has made in light of members' comments and other amendments to strengthen the ISAE are:
 - (a) Giving greater prominence to the need for suitable criteria by requiring an explicit assessment of the suitability of criteria and placing it more prominently in the preconditions for an assurance engagement (**see paragraphs 26A and 25 of Agenda Item E.1**). The Task Force

- also took the opportunity to provide greater consistency with the ISAs by consistently using the term “applicable criteria” rather than switching between “suitable criteria” and “applicable criteria” throughout the ISAE. The Task Force notes that using “applicable criteria” is consistent with the approach taken in the ISAs, where the term “applicable financial reporting framework” is consistently used throughout the ISAs to refer to a financial reporting framework that is acceptable (i.e., criteria that are suitable), rather than referring to “acceptable financial reporting framework”.
- (b) A new requirement that, if the engaging party imposes a limitation on the scope of the practitioner’s work in the terms of a proposed assurance engagement such that the practitioner believes the limitation will result in the practitioner disclaiming a conclusion on the subject matter information, the practitioner shall not accept such an engagement as an assurance engagement, unless required by law or regulation to do so (**see paragraph 28 of Agenda Item E.1**).
 - (c) A new requirement that, the practitioner shall make inquiries of the appropriate party(ies) regarding knowledge of any actual, suspected or alleged intentional misstatement or non-compliance with laws and regulations affecting the subject matter information, the existence and activities of any internal audit function, and whether the responsible party has used any experts in the preparation of the subject matter information. There are also new requirements addressing the practitioner’s responsibilities when there is an internal audit function or the measurer or evaluator has used an expert (**see paragraphs 44 and 53–54 of Agenda Item E.1**).
 - (d) Providing examples of the different ways that a practitioner may report in an attestation engagement (**see paragraphs 68(I)(iv), A172 and A174 of Agenda Item E.1**).
 - (e) Elevation of guidance material to the requirements to strengthen the practitioner’s responsibilities with respect to documentation (**see paragraphs 80–82 of Agenda Item E.1**).
 - (f) Including, in the application material, an explanation that, although some procedures are required only for reasonable assurance engagements, they may nonetheless be appropriate in some limited assurance engagements (**see paragraph A28B of Agenda Item E.1**).
 - (g) Removing the phrase “whether intentional or due to error” as some members had noted that this would be difficult to reconcile with the construction used in the ISAs (which is “whether due to fraud or error”) (see, for example **paragraph 10 of Agenda Item E.1**). The Task Force notes that the important message about the kinds of misstatements included remains in the definition of “misstatements” (see the **last sentence of paragraph 12(n) of Agenda Item E.1**).
 - (h) Clarifying, in several places, which party performs certain actions, such as measurement/evaluation or the taking responsibility for a statement (see, for example, **paragraph 12(a)(ii)(a) and 53 of Agenda Item E.1**).
 - (i) Inserting application material to explain the role of Appendices (see **paragraph A28A of Agenda Item E.1**).

- (j) Clarifying that an inability to obtain sufficient appropriate evidence to form a reasonable assurance conclusion is not an acceptable reason for changing from a reasonable assurance engagement to a limited assurance engagement (see **paragraph A58 of Agenda Item E.1**).
11. The Task Force has also proposed conforming amendments to the Framework, ISAE 3402,³ ISAE 3410⁴ and ISAE 3420.⁵ Consistent with the position adopted in ED-3000, the Task Force is not proposing changes to ISAE 3400⁶ as the IAASB concluded that ISAE 3400 had not been updated to take account of developments in other standards, including extant ISAE 3000, since it was issued. Therefore, proposed amendments may suggest that the standard has been subject to a more significant update than has been the case. Consideration of whether to revise ISAE 3400 may be addressed in setting the IAASB's *Strategy and Work Plan, 2015–2019*.

Matter for CAG Consideration

3. What views do Representatives have on the final changes to ISAE 3000 outlined in paragraph 12 above?

IAASB Interaction with the IAASB CAG

12. The substantive issues being raised on the project for the purposes of the September 2013 IAASB meeting are included in this paper. Accordingly, this serves as the final discussion of the project prior to its anticipated approval by the IAASB. CAG Representatives may wish to take this opportunity to comment on the IAASB's interaction with the CAG during the development and finalization of proposed ISAE 3000 (Revised). Appendix 1 to this paper provides a project history, including links to the relevant CAG documentation.

Material Presented – CAG PAPERS

Agenda Item E.1

Proposed ISAE 3000 (Revised) – Marked from April 2013

Material Presented – IAASB CAG REFERENCE PAPER

[\[Link Pending\]](#)

³ ISAE 3402, *Assurance Reports on Controls at a Service Organization*

⁴ ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

⁵ ISAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*

⁶ ISAE 3400, *The Examination of Prospective Financial Information*

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 September 2010 March 2011	June 2009 December 2009 March 2010 June 2010 September 2010 December 2010 March 2011
Exposure	March 2011 – September 2011	
Consideration of Respondents' Comments on Exposure	March 2012 (Update) September 2012 April 2013	June 2012 September 2012 December 2012 February 2013 April 2013
Final Approval of Proposed Pronouncement	September 2013	September 2013

CAG Discussions: Detailed References

Project Commencement	<p><u>March 2009</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4655</p> <p>See CAG meeting minutes (part of Agenda Item G of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5589</p>
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	<p>See report back on March 2009 CAG meeting (in paragraph 9 of the following material):</p> <p>http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5265</p>
<p>Development of Proposed International Pronouncement (Up to Exposure)</p>	<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 H of the following material):</p> <p>http://www.ifac.org/IAASB/Meeting-Minutes.php?MID=0211</p> <p>See report back on March 2010 CAG meeting (in paragraph 7 of the following material):</p> <p>http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5695</p> <p><u>September 2010</u></p> <p>See IAASB CAG meeting material:</p> <p>http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5695</p> <p>See CAG meeting minutes (in Agenda Item R of the following material):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/5946_0.pdf</p> <p>See report back on September 2010 meeting (in paragraph 6 of the following material):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/6025_0.pdf</p>
<p>Consideration of Respondents' Comments</p>	<p><u>March 2012</u></p> <p>See IAASB CAG meeting material (Update):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-Agendaltem_E6-Project_Updates-v2.pdf</p> <p>See CAG meeting minutes (in Agenda Item E of the following material):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_A_Draft_March%202012_Public%20Minutes-final-marked.pdf</p> <p><u>September 2012</u></p> <p>See IAASB CAG meeting material:</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_D-ISAE-3000-v2.pdf</p> <p>See CAG meeting minutes (in Agenda Item D of the following material):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20120911-</p>

	<p>IAASBCAG- Agenda Item A Draft March%202012 Public%20Minutes-final- marked.pdf</p> <p><u>April 2013</u></p> <p>See IAASB CAG meeting material:</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20130408-IAASB-CAG-Agenda_Item_F-ISAE-3000-final.pdf</p> <p>See report back on April 2013 CAG meeting (in paragraph 4 of this paper)</p> <p>See draft April 2013 CAG meeting minutes at Agenda Item A.</p>
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