Assurance Engagements Other than Audits or Reviews of Historical Financial Information—Issues and IAASB Task Force Proposals

Extent of Changes

1. In approving the proposal for this project, the IAASB agreed that conceptual matters underlying ISAE 3000 and the Assurance Framework should not be reopened for consideration except to clarify them where a particular need to do so has been identified through experience with ISAE 3000.

2. While there may not be universal agreement on whether a proposal meets this criterion, the Task Force accepts the fact that the IAASB may direct it not to pursue a particular issue on the grounds that there is no demonstrable need to “fix” extant ISAE 3000 with respect to the issue.

3. In connection with this, the Task Force has followed up the survey conducted in 2008, primarily of National Standard Setters, that was used in developing the project proposal. The follow up is in the form of a request to major accounting firms and public sector audit organizations to share with the Task Force what they consider to be “broken” in ISAE 3000. An oral report on responses will be presented at the meeting.

Scope of ISAE 3000

Historical Financial Information

4. The classification of information as historical financial information or other information is central to determining which engagements are covered by ISAE 3000. But ISAE 3000 does not include a definition, or even discussion, of what constitutes historical financial information. Clarified ISA 200 includes the following definition of historical financial information (which is also included in the application material in ISA 800):

Information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

5. The Task Force thinks it appropriate to include this definition in ISAE 3000. Application material will likely be required to:

(a) Stress that only historical financial information that is “derived primarily from the entity’s accounting system” is included in the definition. Therefore, it is possible for there to be some engagements that may not be covered by ISAs/ISREs even though the subject matter information is both historical and financial.

---

1 ISAE 3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information.”
2 ISA 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing,” paragraph 13(g).
(b) Assist practitioners in determining when an engagement should be conducted in accordance with ISAE 3000 or ISA 805. The Task Force has been made aware of numerous examples in practice of when this question has been raised, for example, where an engagement relates to a mixture of historical financial information and other information, such as cost per unit of output where cost meets the definition of historical financial information, but the unit of output does not.

**Matters for IAASB Consideration**

Does the IAASB agree that the ISA 200 definition of historical financial information should be included in ISAE 3000?

**Hybrid Engagements**

6. Standards applicable to services provided by a practitioner can be classified as:

<table>
<thead>
<tr>
<th>Assurance engagements</th>
<th>Related Services</th>
<th>Other Professional Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>(the practitioner obtains a certain level of assurance, and conveys that in the practitioner’s report)</td>
<td>(no assurance conveyed in the practitioner’s report, but users may “take” assurance from the practitioner’s involvement)</td>
<td></td>
</tr>
<tr>
<td>Reasonable</td>
<td>Limited</td>
<td>Agreed-upon Pr.</td>
</tr>
<tr>
<td>HFI</td>
<td>ISAs</td>
<td>ISREs</td>
</tr>
<tr>
<td>Other</td>
<td>ISAE 3000</td>
<td>ISAE 3000 (and ISRE 2400 “to the extent practicable”)</td>
</tr>
</tbody>
</table>

7. ISAE 3000 says, “where the subject matter information is made up of a number of aspects, separate conclusions may be provided on each aspect. While not all such conclusions need to relate to the same level of evidence-gathering procedures, each conclusion is expressed in the form that is appropriate to either a reasonable-assurance or a limited assurance engagement.” Apart from this, IAASB literature is silent about whether a single engagement can mix different services.

---

3 ISA 805, “Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement” deals with application of the ISAs to “an audit of a single financial statement or of a specific element, account or item of a financial statement.”

4 ISAE 3000, paragraph 49(i). This wording also appears in the Assurance Framework as footnote 10.
8. The Task Force considered whether a restriction should be imposed on combining various types of services in one report, for example, combining an ISRS 4410 compilation of historical financial information with an ISAE 3000 assurance engagement regarding the system for recording that information.

9. One combination that the Task Force gave particular attention to is combining an agreed-upon procedures engagement with a limited assurance engagement on the same subject matter information. It was noted that this may give readers an incorrect impression that negative assurance could be expressed on the basis of procedures that have been agreed-upon with the engagement party. Rather than outlaw such engagements, the Task Force will consider explaining in ISAE 3000 (or the Assurance Framework) that an assurance conclusion cannot be expressed on the basis of such procedures unless:

(a) Sufficient appropriate evidence has been collected; and

(b) The practitioner has the prerogative under the terms of the engagement to pursue any matter of which the practitioner becomes aware that leads the practitioner to question whether a material modification should be made to the subject matter information.

10. The Task Force is of the view that it is appropriate to prohibit mixing assurance or related services with other professional services in one report, but that it would not be appropriate to restrict other hybrid engagements. A blanket prohibition would be unnecessarily restrictive, and there are so many potential combinations of different subject matters and services that it would be impractical to try to set rules about which combinations should be allowed and which should not. Furthermore, the Review and Compilations Task Force will likely need to address the issues of hybrid engagements after ISRE 2400 and ISRS 4410 have been revised, as consideration of the possible need for other potential kinds of engagements in addition to audits, reviews and compilations in relation to historical financial information are part of that Task Force’s mandate.

11. If the IAASB agrees with this view, the Task Force will consider including cautionary wording in the revised ISAE regarding the need for the practitioner’s report to be clear about which services apply to which subject matter information, and the potential for intended users to misunderstand the nature of complex hybrid engagements.

**Matters for IAASB Consideration**

Does the IAASB agree that it is unnecessary to restrict hybrid engagements, other than prohibiting the mixture of assurance or related services with non-assurance services in one report?

**Overarching Standard for Related Services Engagements**

12. The Task Force discussed whether there is a need for an overarching framework for related services (currently agreed-upon-procedures engagements and compilations). It could be, for example, a separate framework, or possibly a standard, similar to some national standards, dealing with a practitioner’s association with information. This matter has also been discussed by the Review and Compilations Task Force.
13. The Task Force concluded that developing such a framework is beyond the scope of this project, but it may be a topic that the IAASB considers when developing its next strategic plan. However, to the extent there is uncertainty in practice about the characteristics distinguishing assurance engagements from agreed-upon-procedures engagements, and direct reporting assurance engagements from compilations (as discussed at paragraphs 9 and 40(b), respectively), the Task Force may propose adding some guidance.

**Matters for IAASB Consideration**

Does the IAASB agree that developing an overarching framework for related services is beyond the scope of this project?

**Levels of Assurance**

14. The Task Force is aware of four misconceptions about levels of assurance that it appears are commonly enough held to warrant clarification in revised ISAE 3000.

**Unacceptable Limited Assurance Engagements**

15. **Misconception 1:** A limited assurance engagement can be undertaken when a reasonable assurance engagement cannot be because, for example, the subject matter is qualitative, or too future oriented or subjective; the criteria are “soft;” or there are other limitations on the evidence available such as information systems being poorly controlled.

16. This view reflects what was known, when ISAE 3000 was originally being drafted, as the “interaction of variables” approach. The IAASB at that time, after much deliberation including commissioning Research Study 1 and several years of discussion, decided against the interaction of variables approach and in favor of the work effort approach (this approach had also been supported by the 2003 FEE Study “Principles of Assurance”). Under the work effort approach, the only difference between a reasonable assurance engagement and a limited assurance is the nature, timing and extent of procedures the practitioner performs; therefore, if a reasonable assurance engagement cannot be undertaken because of the reasons in the preceding paragraph, then a limited assurance engagement cannot be either. The only time a limited assurance engagement could be undertaken even though a reasonable assurance engagement cannot be, is when time or cost constraints would prevent the practitioner from undertaking a reasonable assurance engagement.

17. The Task Force intends to clarify in the revised ISAE 3000 that if a limitation (other than time or cost constraints) prevents a reasonable assurance engagement being performed, it should also prevent a limited assurance engagement.

**Materiality Varies with the Level of Assurance**

18. **Misconception 2:** For a particular set of circumstances, materiality varies (or can vary) with the level of assurance, such that in a limited assurance engagement, larger errors can be considered immaterial than in a reasonable assurance engagement.
19. The model adopted when ISAE 3000 was approved is that materiality is identical whether a reasonable assurance or a limited assurance engagement is undertaken because it is a user-driven concept and plays a part in determining the practitioner’s work effort, rather than being determined by the practitioner’s work effort.

20. The Task Force intends to make an explicit statement to this effect in revised ISAE 3000.

**Uniform Levels of Assurance**

21. **Misconception 3:** The level of assurance obtained on all reasonable assurance engagements is a specific point on an assurance scale that is the same regardless of the type of subject matter information; and similarly, the level of assurance obtained on all limited assurance engagements is the same regardless of the type of subject matter information and of the procedures performed. This misconception is often coupled with the misconception that the level of assurance obtained on all reasonable assurance engagements is “high” and on all limited assurance engagements is “moderate,” as it is for financial statement audits and reviews, respectively.

22. The model adopted when ISAE 3000 was approved is:

(a) For a reasonable assurance engagement: the level of assurance obtained is, perhaps tautologically, that which is reasonable, all factors considered, in the circumstances. For many types of subject matter information this may be a similar level as for financial statement audits, but for other types of subject matter information it will be either higher (although rarely absolute because of the inherent limitations of assurance) or lower, for example, when the degree of uncertainty inherent in the subject matter information is very high.  

(b) For a limited assurance engagement: the level of assurance obtained varies with the engagement circumstances. As the Assurance Framework states: “The objective of a limited assurance engagement is a reduction in assurance 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, as the basis for a negative form of expression of the practitioner’s conclusion.”

The level of assurance for any given limited assurance engagement is determined by the nature, timing and extent of procedures performed. That level may vary from, at the upper end, just below “reasonable” to, at the lower end, just above “meaningful.”

A meaningful level of assurance is described in ISAE 3000 paragraph 23 as that which “is likely to enhance the intended users' confidence about the subject matter information to a

---

5 Similarly, it can be argued that if the subject matter information is comprised of a series of identifiable components and the practitioner is not concluding on the subject matter information “as a whole,” then the level of assurance with respect to each component may vary.

6 Assurance Framework, paragraph 11.

7 Having said that there is an upper end in theory, there is nothing in ISAE 3000 that prevents a practitioner who has obtained a reasonable level of assurance from expressing a limited assurance conclusion if permitted by the terms of the engagement. However, in such cases, that the practitioner cannot ignore any of the additional evidence obtained.
degree that is clearly more than inconsequential.” The Task Force will consider revising this explanation when redrafting ISAE 3000. For example, the lower threshold could be expressed in terms such as “the subject matter information appears to be worthy of belief.”

The ISREs currently “peg” the level of assurance for financial statement reviews as “moderate,” but as there are no equivalent standards to peg the level of assurance for limited assurance engagements on other subject matters, using the term “moderate” to describe the level of assurance obtained is not appropriate for ISAE 3000. The Task Force is paying close attention to the revision of ISRE 2400 as the IAASB’s thinking on that project regarding matters such as the role of risk and use of the term “limited assurance” versus “moderate assurance,” will no doubt influence its thinking on limited assurance engagements under ISAE 3000. It is recognized, however, that not all the decisions that are appropriate for limited assurance in a financial statement context will necessarily be appropriate for limited assurance with respect to different kinds of subject matters.

The varying levels of assurance obtained in different limited assurance engagements is why ISAE 3000 states, with respect to the requirement to include in the assurance report a summary of the work performed:

Because in a limited assurance engagement an appreciation of the nature, timing, and extent of evidence-gathering procedures performed is essential to understanding the assurance conveyed by a conclusion expressed in the negative form, the summary of the work performed:

(i) Is ordinarily more detailed than for a reasonable assurance engagement and identifies the limitations on the nature, timing, and extent of evidence-gathering procedures. It may be appropriate to indicate procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement; and

(ii) States that the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and that therefore less assurance is obtained than in a reasonable assurance engagement.

Inquiries of Management and Analytical Procedures

23. Misconception 4: The nature of procedures for limited assurance engagements is primarily inquiries of management and analytical procedures regardless of the subject matter.

24. The model adopted when ISAE 3000 was approved is that the nature of procedures for a limited assurance engagement will vary with the engagement circumstances unless there is an applicable subject matter-specific standard that sets out particular requirements regarding the nature of procedures (as do the ISREs with respect to reviews of financial statements).

25. Where there is no applicable subject matter-specific standard, the nature of procedures will vary according to the engagement circumstances, including the needs of intended users. As the Assurance Framework and ISAE 3000 state:

Both reasonable assurance and limited assurance engagements require the application of assurance skills and techniques and the gathering of sufficient appropriate evidence as part of
an iterative, systematic engagement process that includes obtaining an understanding of the subject matter and other engagement circumstances. The nature, timing and extent of procedures for gathering sufficient appropriate evidence in a limited assurance engagement are, however, deliberately limited relative to a reasonable assurance engagement. For some subject matters, there may be specific pronouncements to provide guidance on procedures for gathering sufficient appropriate evidence for a limited assurance engagement. For example, ISRE 2400, “Engagements to Review Financial Statements” establishes that sufficient appropriate evidence for reviews of financial statements is obtained primarily through analytical procedures and inquiries. In the absence of a relevant pronouncement, the procedures for gathering sufficient appropriate evidence will vary with the circumstances of the engagement, in particular, the subject matter, and the needs of the intended users and the engaging party, including relevant time and cost constraints.  

26. It is acknowledged that this leads to different limited assurance engagements having different procedures. While in some cases this is not seen as ideal, particularly where procedures vary from engagement to engagement for a given type of subject matter information, it is consistent with allowing new engagements to develop in a way that does not inhibit innovation. It is also consistent with the expression of a negative form of conclusion based on the description of procedures included in the assurance report.

<table>
<thead>
<tr>
<th>Matters for IAASB Consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the IAASB agree that ISAE 3000 should be revised to clarify the IAASB’s position regarding the following misconceptions:</td>
</tr>
<tr>
<td>• Unacceptable limited assurance engagements;</td>
</tr>
<tr>
<td>• Materiality varying with the level of assurance;</td>
</tr>
<tr>
<td>• Uniform levels of assurance; and</td>
</tr>
<tr>
<td>• Inquiries of management and analytical procedures?</td>
</tr>
</tbody>
</table>

### Three Party Relationship

27. ISAE 3000 is predicated on the existence of a three party relationship.

28. For a typical financial statement audit, this involves:

(a) The entity, which:

- Is responsible for its financial condition, performance and cash flows (i.e., the subject matter);
- Measures the subject matter by applying the financial reporting framework, thereby creating the financial statements (i.e., the subject matter information); and
- Engages the auditor.

---

8 Assurance Framework, paragraph 53 and ISAE 3000 paragraph 37.
(b) The auditor; and
(c) Investors, who are the intended users.

29. This can be depicted as follows:

![Diagram of entity relationships]

(Fin. Rep F/w = Financial Reporting Framework)

30. For some direct reporting performance audits in the Westminster system, four parties are involved:

(a) A government department or agency, which is responsible for the subject matter (i.e., the aspect of performance being audited).

(b) Parliament, which is the engaging party (albeit in very broad terms by virtue of appointing an Auditor-General with statutory powers to initiate performance audits), and is also one of the intended users;

(c) The auditor-general, who is responsible for evaluating the government department’s performance by applying the criteria and thereby creating the subject matter information which appears in the form of findings and is also responsible for reporting conclusions in the auditor-general’s report to Parliament.

(d) The public who, along with Parliament, are the intended users.
31. This can be depicted as follows:

![Diagram 1](image1.png)

32. The Task Force intends to clarify in revised ISAE 3000 that a “three party relationship” means that there are at least three parties (the responsible party, the practitioner, and the intended user), but that there may be up to five parties in a particular engagement, which can be depicted generically as follows:

![Diagram 2](image2.png)

**Matters for IAASB Consideration**

Does the IAASB agree that ISAE 3000 should be revised to clarify that a “three party relationship” means that there are at least three parties (the responsible party, the practitioner, and the intended user) recognizing that particular parties may fulfill or implicitly combine more than one role?
Direct versus Assertion-Based Reporting

33. The distinction between direct reporting engagements and assertion-based engagements is based on paragraph 10 of the Framework, which says:

In some assurance engagements, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users. These engagements are called “assertion-based engagements.” In other assurance engagements, the practitioner either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report. These engagements are called “direct reporting engagements.”

34. Leaving aside for the time being any difficulty regarding the meaning of “in the form of an assertion” and “a representation” in the above paragraph, the two factors mentioned in that paragraph that distinguish a direct reporting engagement from an assertion-based engagement are: (a) who evaluates or measures the subject matter; and (b) who provides/makes available the subject matter information to the intended users.  

35. The following mapping of these two variables indicates that engagements that fall into quadrant #1 are clearly assertion-based, and engagements that fall into quadrant #4 are clearly direct reporting. It is unlikely that there will be many, if any, engagements in quadrant #2 (although this is discussed further under the heading “reasonable basis for assertion” below). That leaves quadrant #3, which complies with the description of direct reporting in the Framework. However, it is the status of engagements in this quadrant that appears to confuse many people.

---

9 It is worth noting that this is not the case in the U.S. equivalent standard, Statement on Standards for Attestation Engagements (SSAE) 10 “Attest Engagements.” SSAE 10 does not recognize as assurance engagements situations in which the practitioner evaluates or measures the subject matter (in other words, quadrants 2 or 4 in the figure of paragraph 35). SSAE 10 discusses reporting “directly” on the subject matter, but this relates only to how the practitioner’s conclusion is worded. The IAASB Assurance Framework recognizes “direct reporting” as a way of wording the practitioner’s conclusion also. The Task Force understands that this matter has caused confusion in the past, and will consider whether revised terminology or some other change is appropriate to address it.
**Who evaluates/measures the SM**

<table>
<thead>
<tr>
<th>Who provides the SMI to users</th>
<th>Responsible party</th>
<th>Practitioner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible party</td>
<td>#1. “the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users”</td>
<td>#2. It is unlikely that there will be many, if any, engagements in this Quadrant (although this is discussed further under the heading “reasonable basis for assertion” below)</td>
</tr>
<tr>
<td>Practitioner</td>
<td>#3. “the practitioner … obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.”</td>
<td>#4. “the practitioner … performs the evaluation or measurement of the subject matter… . The subject matter information is provided to the intended users in the assurance report.”</td>
</tr>
</tbody>
</table>

36. An example of an engagement in quadrant #3 would be a SAS 70 engagement where the service organization prepares the description of the system and provides a representation to the service auditor that controls are suitably designed and operating effectively. The description is provided to intended users by the practitioner with the assurance report, but does not include the service organization’s representation.  

37. When the IAASB discussed direct and assertion-based reporting at its July 2009 meeting, many members commented that in their opinion it is who evaluates or measures the subject matter that determines, or should determine, whether an engagement is a direct reporting or an assertion-based reporting engagement.

---

10 It is possible that the party that evaluates/measures the subject matter is neither the party responsible for the subject matter nor the practitioner. An example of this is provided in the Framework at paragraph 25(b): “when a government organization engages a practitioner to perform an assurance engagement regarding a report about a private company's sustainability practices that the organization has prepared and is to distribute to intended users.” This will be made clear in ISAE 3000. In short, the implications of such a situation for the analysis presented here are similar to when the responsible party evaluates/measures the subject matter.

11 There are variations of this type of engagement that complicate its classification, for example if the description is published in a cover that makes it appear that it was prepared by the service organization. However, since such complicating factors would not be relevant under the Task Force’s proposed approach, they are not considered further here.
38. Who provides/makes available the subject matter information to the intended users is largely a matter of appearances rather than one of substance. Any apparent deficiency with respect to this can be overcome through communication.\(^\text{12}\)

39. However, who evaluates or measures the subject matter is a point of great substance. As discussed at the June IAASB meeting, research evidence shows that it is the initial measurer (as opposed to the post-measurement assurer) who has the biggest effect on the ultimate measurement, particularly if the initial measurer also chooses the criteria. This is because of what can be called “anchoring,” i.e., the mere act of initial measurement necessarily introduces a kind of “bias” (not in a pejorative sense, but merely by virtue of the fact that the measurer’s judgments are exercised in the context of their individual preferences or predispositions). This creates expectations that anchor any subsequent review of that measurement. When it is the practitioner who measures the subject matter, it changes the nature of the assurance engagement from one where the practitioner gathers evidence about an evaluation/measurement that has been “anchored” by another party, to one in which the practitioner independently evaluates/measures the subject matter and in doing so accumulates sufficient appropriate evidence to support that evaluation/measurement.

40. In assurance engagements where the practitioner is the initial measurer, the accumulation of evidence is often done simultaneously with the evaluation/measurement of the subject matter, and there is no subsequent step of the practitioner reviewing his/her own work. So, rather than the value of assurance coming about through independent review of an evaluation/measurement that another party has anchored, as is the case in an assertion-based engagements, the value of direct reporting assurance lies in the combination of:

(a) The independence of the practitioner from the subject matter and the engaging and responsible parties, which must be traded off against the fact that the practitioner is not independent of the subject matter information because the practitioner him/herself created that subject matter information, and

(b) The assurance skills, mindset (for example, professional skepticism) and procedures applied when doing so, which results in the accumulation of evidence that is of a similar level and nature as for an assertion-based engagement. It is this gathering of sufficient appropriate evidence that distinguishes a direct reporting assurance engagement from a mere...

\(^\text{12}\) With this in mind, the Task Force will also consider the merits of encouraging, or perhaps even requiring, that the subject matter information itself make it clear who evaluated or measured the subject matter. This would be in addition to the extant requirement that the practitioner’s assurance report identify the relative responsibilities of the practitioner and the responsible party.
compilation. To illustrate this point, if a practitioner were compiling an entity’s financial statements, the practitioner would not, for example, observe physical inventory counts. In a direct reporting assurance engagement, however, the practitioner would observe physical inventory counts (assuming it is appropriate to do so) in the same way they would if the engagement were an assertion-based engagement.

Matters for IAASB Consideration

Does the IAASB agree that who evaluates or measures the subject matter should be the only criteria for determining whether an engagement is a direct reporting or assertion-based engagement?

Reasonable Basis for Assertion

41. As noted above, it is unlikely that there will be many, if any, engagements in quadrant #2, i.e., where the practitioner evaluates or measures the subject matter but the responsible party makes the subject matter information available to intended users. In accordance with the proposals above, such an engagement would now be classified as a direct reporting engagement, and it is envisaged that the practitioner’s assurance report would make it clear that the practitioner evaluated/measured the subject matter.

42. Situations may occur, however, where an entity seeks to have the practitioner evaluate/measure the subject matter but the entity assumes responsibility for the resulting subject matter and provides a representation to the practitioner to this effect. Having provided such a representation to the practitioner, the entity could also then attach an assertion to this effect to the subject matter information which it then makes available to intended users. This would then make what is, in substance, a direct reporting engagement appear to be an assertion-based engagement. The Task Force is yet to discuss this situation in detail, however, one possible approach, which is consistent with ISAE 3402, is to require that the practitioner accept such an engagement only if the engagement circumstances indicate that the entity will have a reasonable basis for its assertion. The questions that would then need to be answered are: what must the entity do to have a reasonable basis for its assertion, and whether the party responsible for the subject matter having a reasonable basis is an adequate counterbalance to the effect of the practitioner as the initial measurer.

Other Issues

43. The Task Force has discussed a number of other issues which are dealt with in the GHG Consultation Paper released in October. Some of these are fundamental to the content of ISAE 3000 (e.g., the nature and extent of requirements, and the question of what qualifications and experience should be expected of the practitioner – see the Appendix for further elaboration). The Task Force will await the results of the public consultation on that Paper before pursuing those matters further, and will work with the GHG Task Force through common Task Force member Roger Simnett and common staff, to ensure consistency of approach to common issues.

44. Other issues the Task Force has started to consider, but has not reached final conclusions on, are set out below. The IAASB’s initial comments on these issues at this stage would be most welcome.
Terminology

45. **Underlying Subject Matter**: The distinction between “subject matter” and “subject matter information” has often been cited as confusing. While not seeking to change the concepts involved, which are so fundamental that changing them would risk a myriad of unintended consequences, the Task Force will consider whether revised labeling of the concepts would help. For example, the Task Force has discussed the possibility of changing the term “subject matter” to “underlying subject matter,” which better describes its nature and offers a clearer point of distinction from “subject matter information.”

46. **Assertion-based**: Many people find the term “assertion-based” confusing. It blurs the distinction between:

- An overt assertion that accompanies the subject matter information stating that the subject matter information is fairly presented (like that required by ISAE 3402); and
- Representations by management, explicit or otherwise, that are embodied in the subject matter information, as used by the practitioner to consider the different types of potential misstatements that may occur.\(^\text{13}\)

As discussed above, the Task Force is recommending that the distinguishing factor between an assertion-based engagement and a direct reporting engagement be who evaluates/measures the subject matter. If that recommendation is accepted, the label “assertion-based” may cause confusion, so the Task Force is considering alternative terms, such as “attestation engagement” to replace it. This will then offer the opportunity to clarify/eliminate the different uses of the term assertion. For example, an overt assertion that accompanies the subject matter information may be better described simply as a representation that is made available to the intended users.

Structure of Documents

47. The Task Force considered whether ISAE 3000 should be elevated to a position above both subject matter-specific ISAEs and the ISAs/ISREs to make it clearer that ISAs are only one part of the IAASB’s standards, and that the financial statement audit is only one service within the suite of possible assurance services. The Task Force decided against recommending this because it would complicate the structure of standards for the profession’s “main” product, i.e., financial statement audits.

48. The Task Force considered the potential for practitioners to use ISAE 3000 without referring to the Framework. To ensure that anyone using or referring to ISAE 3000 is aware of the contents of the Framework, the Task Force intends incorporating a significant amount of information from the Framework into the revised ISAE.

---

\(^\text{13}\) Adapted from ISA 315, “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment,” paragraph 4(a).
Special Purpose Assurance Engagements and Suitable Criteria

49. The Task Force discussed whether ISAE 3000 should distinguish between general purpose and special purpose assurance engagements. The Task Force has tentatively concluded that while it may be helpful to describe this distinction in the application material, it would be an unnecessary complication to include differential requirements because ISAE 3000 already allows an appropriate degree of flexibility to, for example, restrict users or uses of the assurance report according to the circumstances of the engagement.

50. A related question is whether the practitioner is responsible for evaluating the suitability of the criteria in only a general sense, or whether the responsibility extends to assessing the suitability of the criteria, particularly “established criteria,” in relation to the decisions that intended users are likely to make based on the subject matter information. The Task Force has tentatively concluded that it may be appropriate to include in ISAE 3000 an adaptation of the material in ISA 210 dealing with how an auditor determines the acceptability of a financial reporting framework.  

Other Assurance Engagements on Historical Financial Information

51. Extant ISAE 3000 states that it is “for the performance of assurance engagements other than audits or reviews of historical financial information covered by International Standards on Auditing (ISAs) or International Standards on Review Engagements (ISREs).” This wording gives rise to the question of whether there are assurance engagements on historical financial information other than those covered by ISAs/ISREs? If there are, as appears likely to be the case in the public sector, then this wording indicates that those engagement fall under ISAE 3000.

52. The issue can be looked at as follows.

<table>
<thead>
<tr>
<th>ISAs/ISREs cover:</th>
<th>ISAE 3000 covers:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Particular audits/reviews of HFI</td>
<td>(b) Other audits/reviews of HFI, if any</td>
</tr>
<tr>
<td>(c) Assurance engagements on HFI other than audits/reviews, if any</td>
<td>(d) All assurance engagements on information that is not HFI</td>
</tr>
</tbody>
</table>

53. The possible development of alternative engagements for historical financial information along the spectrum of audit/reviews/compilation engagements is being debated as part of the IAASB’s deliberations on the review and compilation project. It seems appropriate to consider the wording of the scope of ISAE 3000 once further progress has been made on that project, and on the question of mixed information as discussed in paragraph 5(b).

---

14 ISA 210, “Agreeing the Terms of Audit Engagements,” paragraphs A4-A10 and Appendix 2. 
15 ISAE 3000, paragraph 1.
Other

54. The Task Force has also identified the following issues, but has not yet considered them in any depth:

- *Is the nature of professional skepticism different for a reasonable assurance engagement than for a limited assurance engagement?* A “sliding scale” approach to professional skepticism was discussed at the June IAASB meeting. It appears to have support in some academic papers, but is contrary to the concept of professional skepticism as used in the Framework and ISAE 3000. Based on the Task Force’s initial discussion, it does not intend to make any significant changes to this concept, but may upgrade what is currently a description of professional skepticism to a definition, and clarify that the use of this term may not have the same meaning as skepticism when used in other contexts.

- *Are engagement acceptance thresholds clear?* For example, if the practitioner expects a negative outcome, should the engagement be accepted? The ISAs now have more detail on this issue than when ISAE 3000 was first written. Some of this material could be adapted for use in the revised ISAE 3000 by relating it to the Framework’s “requirement” regarding the need for the engagement to have a rational purpose. For example, while an expectation that a disclaimer of opinion will be issued might indicate the engagement lacks a rational purpose, that may not always be the case if the presence of the practitioner will add value in some other way, such as improving the quality of the subject matter information.  

- *Does an assurance conclusion on subject matter information as a whole (versus an assurance conclusion on the constituent parts of the subject matter information) need to be addressed?*

- *Does the issuance of opinions and conclusions on fair presentation of subject matter information as opposed to compliance opinions or conclusions need to be addressed?* This is an issue identified in the GHG Consultation Paper. A precedent has been set by using the term “fair presentation” in ISAE 3402. The question that needs to be addressed is what are the conditions for a fair presentation assurance conclusion compared to a compliance assurance conclusion?

- *Are there additional issues that need to be addressed in relation to materiality in assurance engagements other than audits or reviews of historical financial information?* The Task Force had an initial discussion on this issue based upon an internal task force paper, and it is also an issue identified in the GHG Consultation Paper. It appears unlikely that there will be more requirements in relation to materiality, but additional guidance is being considered in relation to, for example:

---

16 For example, even in a financial statement audit, as the IFAC Code of Ethics for Professional Accountants (“IFAC Code”) acknowledges, such things as “proposing adjusting journal entries ... are considered to be a normal part of the audit process and do not, generally, create threats to independence” (paragraph 290.169).
o Situations when the applicable criteria do not discuss the concept of materiality. For example, should ISAE 3000 provide a default definition of materiality for when there is none in the criteria?

o The role of performance materiality in assurance engagements.

o Whether the assumptions about intended users (e.g., reasonable knowledge of the subject matter) and other guidance adapted from the ISAs are appropriate.

o Whether materiality should always be considered in terms of intended users’ “economic” decisions, or whether there are other decisions made by various users that should be taken into account.

o The role of trivial/inconsequential errors/misstatements.

o Explaining the link between materiality (precision), risk (confidence) and work effort.

o The materiality implications of uncertainty with respect to the subject matter information.

o Disclosure in the assurance report of the materiality level in some cases.

- **Is ISAE 3000 clear enough regarding restrictions on service level downgrades?** Is it only when the engagement goes from reasonable assurance to limited assurance, or from limited assurance to no assurance, that restrictions should cut in? Are there other dimensions that should be considered? As an example of the latter, the scope of information to be included in the engagement (there is some thought given to this in the GHG Consultation Paper).

- **Should the practitioner’s report include a statement that the practitioner considers the criteria to be suitable for the purposes of the engagement?** Such a statement was seen to be appropriate in ISAE 3402.

- **Is there a need for a separate Glossary?** The current Glossary includes words that are defined in the context of financial statement audit engagements, but which are likely to be applicable, adapted as appropriate, to broader assurance engagements. For example, the Glossary includes the definition of error as “An unintentional misstatement in financial statements, including the omission of an amount or a disclosure.” This has a clear parallel in broader assurance engagements but the term “financial statements” needs to be replaced by “subject matter information.”

- **What will be the authority of the objective and the requirements?** ISAE 3000 will be drafted in clarity style with an objective preceding the requirements. What will be the role of that objective, and how will it relate to the requirements in terms of authority? How does the ISAE 3000 objective, and its requirements, relate to those in other ISAEs? Should there be a tendency towards more guidance and fewer requirements in evolving engagements so as not to fetter innovation?

- **Should ISAE 3000 elaborate on the inherent limitations of assurance?** Given the increased attention paid to the inherent limitations of an audit in clarified ISA 200, to what extent is it appropriate to similarly expand upon the inherent limitations of assurance in ISAE 3000?
• *Is the distinction between different types of engagements clear?* It is often the case with non-statutory engagements that they can be structured as an assurance engagement, an assurance-related engagement, or a non-assurance engagement. The Task Force will consider whether the distinctions between these engagements (and, therefore, which standards apply) are clear. Initial discussion indicates that it may be appropriate to add the concept of evidence to the definition of assurance engagement to help distinguish between assurance and related service engagements.

• *Relationship with the IFAC Code:* The Task Force has identified the need to liaise with the IESBA as this project progresses, and to consider whether any proposed changes may require a change in the IFAC Code or be inappropriate because of the requirements of the IFAC Code.
Appendix

Common Issues Raised in the GHG Consultation Paper

The following questions are adapted from the GHG Consultation Paper. The Task Force expects to gain insight into stakeholders’ views on these matters as they apply to ISAE 3000 from the GHG consultation process.

The Engagement Partner and the Team

- What are the expected skills, knowledge and experience of the engagement partner? For example, should the engagement partner be required to:
  - Be a professional accountant in public practice, or the public sector equivalent, who has specialist skills, knowledge and experience in assurance concepts and processes developed through extensive training and practical application; and
  - Have sufficient skills, knowledge and experience of subject matter?

- Should external experts be required to be independent? If so:
  - In what circumstances should an external expert be required to be independent?
  - What measure of independence should be applied (for example, which elements of the IFAC Code, which has been written for application to accountants and accounting firms only, should be applied to external experts)?

Number and Nature of Requirements, and Cost and Benefit Considerations

- What would be the likely impact on the cost of a reasonable assurance engagement if ISAEs included requirements of a similar number and nature as the working draft? Is this cost likely to be proportionate to the benefit to be derived?

- Are some requirements better placed in ISAE 3000 than in subject matter-specific ISAEs because they apply to all subject matters (for example, requirements regarding documentation)?

Reporting

- Should ISAEs include requirements with respect to Emphasis of Matter paragraphs and Other Matters paragraphs adapted from ISA 706, or are these concepts not particularly relevant to assurance engagements?

- Are there circumstances in which it is appropriate to include recommendations in the assurance report?

- Should ISAEs distinguish between fair presentation versus compliance frameworks?