

**(Amended)**  
**Agenda Item**  
**2-A**

**Assurance Engagements—Issues and IAASB Task Force Proposals**

**ISAE 3000**

1. Not many changes have been made to the draft of revised ISAE 3000<sup>1</sup> at **Agenda Item 2-C** as few significant issues were raised concerning the previous draft at the IAASB’s December 2010 meeting. Matters of note include the following.

*The Code of Ethics for Professional Accountants (the IESBA Code)*

2. It was noted at the December 2010 meeting that the wording of paragraph 2(a) of the draft ISAE with respect to compliance with the ethical requirements (“the IESBA Code ... or other professional requirements, or requirements in laws or regulations, that are at least as demanding”) is not consistent with page 4 of the IESBA Code, which reads:

*“This Code of Ethics for Professional Accountants establishes ethical requirements for professional accountants. A member body of IFAC or firm shall not apply less stringent standards than those stated in this Code. However, if a member body or firm is prohibited from complying with certain parts of this Code by law or regulation, they shall comply with all other parts of this Code.”*

3. Staff has liaised with the IESBA staff on this matter, which has also been discussed further at the Task Force. Two issues arise:
  - (a) Is the wording “at least as demanding” appropriate?

The Task Force considered alternative wording that more closely aligns with the IESBA Code (e.g., “*not less stringent unless prohibited by law or regulation*”). The Task Force (i) considered it unnecessary to make reference to the fact that the Code contemplates departure “*if a member body or firm is prohibited from complying with certain parts of this Code by law or regulation*” since that provision is effectively imported into the ISAE in any case through the ISAE’s reference to the Code; and (ii) considered the wording “*not less stringent*” to be effectively the same as “*at least as demanding*,” but the latter wording has the added advantage of being the same as that used in the ISAs with respect to ISQC 1. This allows consistent wording to be used in paragraphs 2(a) and 2(b) of the draft ISAE.

Wording used in the ISAs with respect to ethical requirements was also considered (“*Relevant ethical requirements—Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with national requirements that are more restrictive*”). This wording was not considered appropriate for the ISAEs

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<sup>1</sup> ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

where a closer link to the IESBA Code than “ordinarily” is needed given the range of individuals or firms who may use the ISAEs.

- (b) Who decides whether a particular Code is “at least as demanding” as the IESBA Code, and on what basis?

It is considered impractical for a central authority, such as the IESBA (or the IAASB) to attempt to compare against the IESBA Code the many “*other professional requirements, or requirements in laws or regulations*” that exist in practice. Doing this comparison will necessarily be the responsibility of individual practitioners, perhaps aided by national institutes.

The benchmark to be applied in making that comparison is, however, clearly stated in the draft ISAE at paragraph A31 “*Professional requirements, or requirements imposed by laws or regulations, are at least as demanding as Parts A and B of the IESBA Code related to assurance engagements when they address all the matters referred to in paragraphs A27–A30 and impose obligations that achieve the aims of the requirements set out in Parts A and B of the IESBA Code related to assurance engagements.*” Paragraphs A27-A31 are now referenced in paragraph 2(a) to ensure the link to this benchmark is clear.

**Matter for IAASB Consideration**

Q1. Is the wording regarding the IESBA Code in paragraph 2(a) of the draft ISAE appropriate?

*Objectives*

4. The wording of the practitioner’s objectives, as stated in paragraph 6 of the draft, was challenged at the December 2010 meeting. In response, the Task Force has removed from paragraph 6(a) reference to the practitioner’s conclusion, which now appears in paragraph 6 (b) only. This better separates evidence gathering (paragraph 6(a)) from reporting (paragraph 6(b)). The Task Force considers that the revised drafting also works more clearly for direct engagements (see Question 4 below).
5. A reference to communications other than the practitioner’s report has been added as paragraph 6(c) to encompass the requirements in paragraphs 57-67.

**Matter for IAASB Consideration**

Q2. Is the wording of the practitioner’s objectives in paragraph 6 of the draft ISAE appropriate?

*“Negative Form of Expression” for the Practitioner’s Conclusion*

6. As agreed at the December meeting, the term “negative form of expression” should be avoided. This has been done throughout the attached drafts by substituting a more descriptive, albeit longer, term, as in paragraph 8(a)(i)a. of the draft ISAE 3000:

*“The assurance report communicates the limited nature of the assurance obtained and ~~uses the negative form of expression for the practitioner’s conclusion~~ expresses the conclusion in a form that conveys the fact that, based on the procedures performed, nothing has come to the practitioner’s attention to cause the practitioner to believe the subject matter information is materially misstated.”*

**Matter for IAASB Consideration**

Q3. Is the wording substituted for “negative form of expression” appropriate?

*Direct Engagements*

7. There was some discussion at the December 2010 meeting about whether the draft ISAE properly accommodates the differences between attestation and direct engagements, especially whether all its provisions can properly be applied in direct engagements in the public sector, with Canadian practice being mentioned in particular.
8. The Task Force, which includes an INTOSAI nominee, Andrew Baigent from the UK National Audit Office, considered this matter in some depth. The central issue is whether there is always necessarily a “subject matter information” in a direct engagement, e.g., when a public sector auditor is opining on aspects of a government department’s efficiency in the absence of specific measures of that efficiency having been made by the department.
9. The Task Force is firmly of the view that there is always “subject matter information” in an assurance engagement, be it an attestation or a direct engagement – this is inherent in the definitions and conceptual underpinnings of the assurance model adopted by the IAASB. In a direct engagement, that subject matter information may be in the form of the practitioner’s conclusion or in the practitioner’s findings, rather than in a separate report.
10. A number of very helpful suggestions to clarify this point, and related points (e.g. the meaning of a misstatement with respect to a direct engagement), were made through correspondence and discussion with the Canadian IAASB member, Phil Cowperthwaite. The Task Force believes that the resulting wording changes improve the clarity of the draft regarding direct engagements; see e.g., paragraphs 8(j) and (k), 59(c) and A3, particularly when read in conjunction with the previous additions (e.g., paragraphs A1–A5).

**Matter for IAASB Consideration**

Q4. Are the changes to the draft ISAE with respect to direct engagements appropriate?

## The Framework<sup>2</sup>

11. At the December 2010 IAASB meeting, the Task Force was asked to revise the Framework so as to keep the same basic structure and coverage as the extant Framework, but to update the language and concepts to be consistent with the draft revised ISAE 3000.
12. An issue that arose in doing so was how to treat the extant Framework’s directive language (e.g., occasional use of “must” and “permitted”) and common use of present tense sentences. Paragraph 41 (old paragraph 39) of the extant Framework is a good example of present tense:

*“The practitioner plans and performs an assurance engagement with an attitude of professional skepticism to obtain sufficient appropriate evidence about whether the subject matter information is free of material misstatement. The practitioner considers materiality, assurance engagement risk, and the quantity and quality of available evidence when planning and performing the engagement, in particular when determining the nature, timing and extent of evidence-gathering procedures.”*

13. Present tense sentences were eliminated from the ISAs during the Clarity Project because many stakeholders found them confusing in that they implied, but did not clearly state, an obligation for the auditor. While the same level of confusion about practitioners’ responsibilities is unlikely to arise through the use of present tense in the Framework, the Task Force believes that this revision offers a good opportunity to clarify that the Framework is not a standard and does not contain requirements. The Task Force has therefore (a) stated this quite explicitly in the opening paragraphs of the revised draft Framework, (b) eliminated directive language, and (c) in most cases converted present tense sentences into statements of fact using passive expression. For example, Paragraph 41 (old paragraph 39) now reads:

*“Assurance engagements are planned and performed with an attitude of professional skepticism to obtain sufficient appropriate evidence about whether the subject matter information is free of material misstatement. Professional judgment needs to be exercised in considering materiality, engagement risk, and the quantity and quality of available evidence when planning and performing the engagement, in particular when determining the nature, timing and extent of procedures.”*

14. While there may appear to be many changes to the Framework, the Task Force considers these to be necessary to ensure the Framework is consistent with the revised ISAE 3000 and retains its extant structure, as directed by the Board in December 2010. The changes help the Framework better explain the concepts underlying all assurance engagements.

### **Matters for IAASB Consideration**

- Q5. Is the treatment of directive language and present tense sentences in the draft revised Framework appropriate?
- Q6. Are other aspects of the structure and wording of the draft revised Framework appropriate?

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<sup>2</sup> *International Framework for Assurance Engagements*

## Conforming Amendments

15. The Task Force has proposed conforming amendments to ISAE 3402.<sup>3</sup> In doing so, it has followed a principle of only changing text where it is necessary to eliminate any contradiction of revised ISAE 3000, reflect changes in terminology, or eliminate language that might otherwise lead to confusion. It was thought particularly important to keep changes to ISAE 3402 to a minimum given the efforts other jurisdictions have made to harmonize their standards with it.
16. Conforming amendments have also been proposed to the Exposure Draft of ISAE 3410,<sup>4</sup> the Explanatory Memorandum to which stated “*Proposed ISAE 3410 requires that a practitioner comply with the requirements of both this ISAE 3410 and ISAE 3000. Although ISAE 3000 is currently being revised by the IAASB, proposed ISAE 3410 has been written in the context of extant ISAE 3000. Any conforming amendments to proposed ISAE 3410 as a result of proposed changes to ISAE 3000 will be included in the exposure draft of proposed ISAE 3000 (Revised).*”
17. No conforming amendments have been proposed to:
  - (a) ISAE 3400<sup>5</sup> which is generally acknowledged to be out-of-date – proposing conforming amendments may give the erroneous impression that ISAE 3400 is up-to-date and not in need of major revision; or
  - (b) The Exposure Draft of ISAE 3420,<sup>6</sup> the comment period for which has closed.

### Matters for IAASB Consideration

- Q7. Does the IAASB agree with the proposed conforming amendments for ISAE 3402 and proposed ISAE 3410?
- Q8. Does the IAASB agree that no proposed conforming amendments are necessary for ISAE 3400 and ISAE 3420?

## Effective Date

18. It is suggested that a period of 12-15 months be allowed for adoption and implementation of the revised ISAE at the national level, once it is approved. This takes account of a minimum period for national due process and translation, as applicable. Early application of the ISAE would be permitted. This anticipated period for adoption and implementation would be signaled in the explanatory memorandum and respondents’ input sought.

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<sup>3</sup> ISAE 3402, *Assurance Reports on Controls at a Service Organization*

<sup>4</sup> ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

<sup>5</sup> ISAE 3400 *The Examination of Prospective Financial Information*

<sup>6</sup> ISAE 3420, *Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus*

19. In relation to the draft Framework, no effective date provision is necessary as the Framework contains no requirements.

**Matter for IAASB Consideration**

- Q9. Is it appropriate to allow 12-15 months for adoption and implementation of the revised ISAE?

**Consideration by IAASB of Significant Matters Identified by Task Force**

20. 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 June 2009, December 2009, March 2010, June 2010, September 2010, December 2010 and this meeting. 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.