

IAASB
Technical Director
Mr. James Gunn
545 Fifth Avenue
10017 New York
USA

Date: September 1, 2011
Subject: **ED ISAE 3000**
Our Ref: AB/wo

Dear Mr. Gunn,

NOREA appreciates the opportunity to comment on IAASB Exposure Draft ISAE 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" (hereafter 'ED'). We have prepared our comments in close cooperation with NBA¹ in the Netherlands.

General

In the ED no reference is made to the "International Framework for Assurance Engagements" anymore. We agree that the "Framework" is useful in providing an overview of assurance concepts and in understanding the relationships/links and differences between the various assurance engagements and should therefore not be withdrawn.

The "Framework" and the ED should also define clearly the various types and scope of the subject matters. We wonder whether this ED is also applicable for a combination of financial and non-financial information (e.g. integrated reporting). We recommend clarifying this.

Request for Specific Comments

1. Do respondents believe that the nature and extent of requirements in proposed ISAE 3000 would enable consistent high quality assurance engagements while being sufficiently flexible given the broad range of engagements to which proposed ISAE 3000 will apply?

In general we believe that the requirements will enable consistent high quality assurance engagements and will be sufficiently flexible. However, it is not clear whether all requirements are applicable for different engagements (reasonable vs. limited and direct vs. attestation engagements). We recommend stating this clearly. The columnar format which is used in ED 3410 on "Greenhouse Gas Statements" and in the "Framework" could be used to distinguish between reasonable versus limited and between direct versus attestation engagements.

We wonder whether reference to the Code of Ethics/ethical requirements and ISQC1 in the ED is necessary in various paragraphs (2, 3 16 and 27). We advise combining this.

Subject-specific ISAEs should be stand-alone standards as much as possible in our opinion as practitioners will only read the subject-specific ISAE. We recommend duplicating or referring to important general requirements from ISAE 3000 in the subject-specific ISAE.

¹ The Dutch Professional Accountancy Association (Dutch acronym: NBA) is an alliance between NIVRA and NOvAA

The ED introduces the concept of qualitative factors in considering materiality. However, the principles of materiality applied in a quantitative context do not easily transpose to a qualitative context. We consider that further guidance in this area is needed especially for assurance engagements that deal with non-financial information.

2. With respect to levels of assurance:

(a) Does proposed ISAE 3000 properly define, and explain the difference between, reasonable assurance engagements and limited assurance engagements?

In paragraph 8 (a) (i) (a) a reasonable assurance engagement is defined, without identifying the degree or extent of (high level) assurance. We recommend considering adding an indication of the degree or level of reasonable assurance.

In paragraph 8(a) (i) (b) is also stated that “the level of limited assurance is in the practitioner’s judgment meaningful to the intended users”. This might be difficult to judge in practice. Also we wonder whether users understand the differences between reasonable assurance and limited assurance. It might be useful to involve users and to develop guidance for users to understand the meaning of the various engagements and the difference between them.

We recommend making clear which requirements are applicable for reasonable assurance engagements and limited assurance engagements. This could be done by using the columnar format which is used in ED 3410 and in the “Framework”.

(b) Are the requirements and other material in proposed ISAE 3000 appropriate to both reasonable assurance engagements and limited assurance engagements?

We wonder whether there is sufficient guidance for the procedures that need to be performed. Especially for limited assurance and direct engagements it is not described which procedures need to be performed. The standard is intentionally broad and consequently it is not feasible to address all procedures for the different underlying subject matters. However, it would be useful to have more guidance on the procedures to be performed.

For limited assurance the “risk model” is not explicitly stated in the ED. We recommend explicitly including risk assessment for determining the nature and extent of procedures (risk based approach) in the ED.

(c) Should the proposed ISAE 3000 require, for limited assurance, the practitioner to obtain an understanding of internal control over the preparation of the subject matter information when relevant to the underlying subject matter and other engagement circumstances?

Yes. In the explanatory memorandum is stated that in a limited assurance engagement the practitioner is not required to evaluate the design of controls. In our opinion, the testing of controls is not required, but evaluating the design of controls is necessary in a limited assurance engagement to obtain an understanding of the entity. The degree of the evaluation of the design of controls is dependent upon the size and nature of the entity. We recommend changing this in the ED.

3. With respect to attestation and direct engagements:

(a) Do respondents agree with the proposed changes in terminology from “assertion-based engagements” to “attestation engagements” as well as those from “direct-reporting engagements” to “direct engagements”?

We recommend not changing the terminology. Although the definitions have changed to some extent, the principles have not changed.

(b) Does proposed ISAE 3000 properly define, and explain the difference between, direct engagements and attestation engagements?

Although the concept is clear, it might be useful to include more examples to get a clearer picture of the categorization as direct engagement or attestation engagement.

We wonder whether the difference between direct engagements and attestation or compilation engagements is clear. Although it is stated that the distinction is in obtaining evidence and in being independent from the underlying subject matter, this might not be understood by users. The practitioner will have gathered the evidence that the assurance is based on and he is not independent of the subject matter information. We recommend clarifying how a practitioner obtains evidence in a direct engagement whilst maintaining independence and quality control policies.

(c) Are the objectives, requirements and other material in the proposed ISAE 3000 appropriate to both direct engagements and attestation engagements? In particular:

We recommend making clear which requirements are applicable for direct engagements and attestation engagements. This could be done by using the columnar format which is used in ED 3410 and in the "Framework".

(i) In a direct engagement when the practitioner's conclusion is the subject matter information, do respondents believe that the practitioner's objective in paragraph 6(a) (that is, to obtain either reasonable assurance or limited assurance about whether the subject matter information is free of material misstatement) is appropriate in light of the definition of a misstatement (see paragraph 8(n))?

The definition differs from the definition used in audits to accommodate for direct engagements. The definition of "misstatement" in paragraph 8 (n) uses the terminology "... intentional or unintentional". The usual terminology is "error and fraud" with regard to audits. We wonder whether it is necessary to change this terminology". Furthermore we recommend giving guidance how to deal with fraud in an assurance engagement as this is currently not mentioned. In the Netherlands currently we refer to ISA 240 and ISA 250 if the auditor has indications of possible fraud and/or non-compliance with laws and regulations.

(ii) In some direct engagements the practitioner may select or develop the applicable criteria. Do respondents believe the requirements and guidance in proposed ISAE 3000 appropriately address such circumstances?

In our opinion the practitioner should not select or develop the applicable criteria. This will not be understood by users and affects the independence of the practitioner. The applicable criteria should be selected or developed by the users, responsible party or a third party in a due process. In the extant "Framework" in paragraph 36 it is stated that "The evaluation or measurement of a subject matter on the basis of the practitioner's own expectations, judgments and individual experience would not constitute suitable criteria". We recommend not changing this in the "Framework" and the ED.

4. With respect to describing the practitioner's procedures in the assurance report:

(a) Is the requirement to include a summary of the work performed as the basis for the practitioner's conclusion appropriate?

Yes. The practitioner should state clearly which procedures he has performed.

(b) Is the requirement, in the case of limited assurance engagements, to state that the practitioner's procedures are more limited than for a reasonable assurance engagement and consequently they do not enable the practitioner to obtain the assurance necessary to become aware of all significant matters that might be identified in a reasonable assurance engagement, appropriate?

We wonder whether this is clear from a user perspective, especially the second part. Alternative wording might be "and consequently the assurance given is limited". The practitioner should explain the procedures performed instead of referring to procedures not performed.

(c) Should further requirements or guidance be included regarding the level of detail needed for the summary of the practitioner's procedures in a limited assurance engagement?

No, this will vary between engagements.

5. Do respondents believe that the form of the practitioner's conclusion in a limited assurance engagement (that is, "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") communicates adequately the assurance obtained by the practitioner?

For limited assurance reports the same issues as in ED ISRE 2400 are applicable. We are concerned that the conclusion in a limited assurance report is not understood by users. We wonder whether the users understand the difference between reasonable and limited assurance engagements.

Furthermore, double negative wording is difficult to read. Alternatives might be "Taking into account the limitations of a review engagement, we believe that these financial statements do present fairly, in all respects, (or give a true and fair view)...." or "Based on our review, nothing has come to our attention that causes us to believe that the financial statements require material amendment to be in accordance with the financial reporting framework".

6. With respect to those applying the standard:

(a) Do respondents agree with the approach taken in proposed ISAE 3000 regarding application of the standard by competent practitioners other than professional accountants in public practice?

Yes. This is allowed in the Netherlands if the other practitioners comply with the specific local requirements (that are at least as demanding as the Code of Ethics and ISQC 1).

(b) Do respondents agree with proposed definition of "practitioner"?

Both the engagement partner and the practitioner are introduced in the definitions. This is confusing as it appears if both persons are exchangeable. We recommend considering whether it is possible to define or identify more sharply their differing duties, authorities, etc.

Comments on other matters

Public sector

We recommend co-ordination with INTOSAI Standards (e.g. compliance audits (ISSAI 4000) and performance audits (ISSAI 3000)).

SMPs and SMEs

We refer to our answer to question 3 (b).

Furthermore, we would like to add the following:

We feel that it might not be clear how the practitioner should deal with the situation where it is not possible for an entity to maintain appropriate internal controls without incurring disproportionate costs, given the nature and the size of the entity and its operations. In the case of an audit (reasonable assurance engagement), the auditor will disclaim an opinion. We recommend giving guidance how to deal with this situation in a review engagement (limited assurance engagement).

Developing Nations

N/A.

Translations

No comments.

Effective date

A period of 12/15 months for implementation (including translation) seems to be feasible.

Closing remarks

We trust to have informed you sufficiently. If you have any questions, please do not hesitate to contact Wilfried Olthof (w.olthof@norea.nl).

Yours sincerely,

NOREA,
Association of Registered IT-auditors in the Netherlands

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Ard Niesen RE CISA,
Chairman