

IAASB Exposure Draft
Proposed International Standard on Assurance Engagements
ISAE 3000 (Revised), Assurance Engagements Other Than Audits
or Reviews of Historical Financial Information

response to exposure draft

30 September 2011

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As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

Our ref: Responses/ 110930 SC0167

James Gunn
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30 September 2011

Dear James Gunn

Proposed International Standard on Assurance Engagements

ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

CIPFA is pleased to present its comments on this Exposure Draft, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

General comment

CIPFA strongly welcomes the further development of ISAE 3000 which provides both a general purpose standard for this wider category of engagements, and underpins a small number of subject specific ISAEs. Ideally, the Board would have completed its revision of ISAE 3000 before developing a new ISAE 3410 on Assurance on Greenhouse Gases Statements, even though we appreciate and applaud the Board's efforts in progressing the latter project.

The proposed ISAE is presented in clarified style and contains a number of other improvements and expanded explanations which serve to underline the contribution which can be made by assurance practitioners.

The extant ISAE 3000 is, of course, already broad in scope. However, the effective and intended reach of the revised ISAE is greater, partly because of the inclusion of comparable assignments carried out by a wider class of practitioner, and partly because of expansion of material on direct engagement. The material explicating the distinction between limited and reasonable assurance has also contributed to the expansion of the standard.

Following on from the above:

- While some practitioners will be familiar with direct engagements, the description in the proposed revised ISAE is somewhat abstract and conceptual. It would be helpful if this were supplemented by examples and case studies in the application guidance or other explanatory material. It would be particularly helpful to have examples of assignment criteria, including ones developed or selected by the practitioner
- In widening the reach of the ISAE to encompass non-accountants, it would be helpful if guidance could be provided which was more readily understandable by non-accountants. If there are difficulties in doing this in the body of the ISAE, this might be addressed through additional explanatory material.

As noted above, the range of engagements potentially covered by ISAE 3000 is very large, and the standard is correspondingly multi-dimensional. The fuller explanation of direct engagements has added to the body material. Our suggestions above would add further material. We have some concerns that the new standard will be difficult to follow, especially for smaller practitioners (of whatever specialism or background) who do not have a technical department or other technical support function. We recognise that for some specific subject matter engagements such as e.g. Assurance on Greenhouse Gases Statements, more focussed guidance will be provided in dedicated ISAEs. In the light of this, we have considered whether it would be better to separate the material in the ISAE, so that ISAE 3000 focussed primarily on material relating to the conduct of the practitioner and communications and liaison with other parties to the engagement. Separate material could be produced on the evidencing and verification procedures relating to subject matter information, and in the case of direct engagements, processing of data to produce the information; one approach would be to include this type of material in more specific ISAEs; arguably this would allow the requirements of the ISAE to better reflect the relevant features of the engagement type.

However, we recognise that the IAASB has structured ISAE 3000 as an overarching standard which applies to a wide range of engagements. We have also had regard to the fact that we would not wish to restrict application to subjects covered by the specific ISAEs, or to require extensive development of ISAEs unless there was a clear demand. Nevertheless, we wonder if it would be helpful if ISAE 3000 more clearly distinguished the 'conduct and communications' aspect of the standard, which might be expected to be similar for all assurance engagements (notwithstanding differences arising from regulatory requirements and jurisdictional context), and those aspects which relate to evidence and information processing which will be directly affected by the nature of the subject matter information and the structure of the engagement.

Specific Matters for Comment

CIPFA responses to the Specific Matters on which IAASB would particularly value comment are attached.

I hope this is a helpful contribution to the development of the Board's guidance in this area. If you have any questions about this response, please contact Steven Cain (e:steven.cain@cipfa.org.uk, t:+44(0)20 7543 5794).

Yours sincerely

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Questions in the IAASB 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 CIPFA's view, the nature and extent of the proposed ISAE are a good basis for consistent high quality assurance engagements.

The principles set out in the ED should give enough flexibility to cover the broad range of assurance engagements to which it is intended that it apply.

However, some requirements may be overly specific. The range of engagements potentially covered by ISAE 3000 is very large. In addition to the attest/direct engagement and limited/reasonable assurance dimensions, there may be significant variations in the nature of the subject matter, the criteria, the status of the engagement and the degree to which the engagement is understood by stakeholders. While more tightly specified requirements may be helpful in ISAEs for specific subject matter, for this overarching standard it would be helpful if some of the requirements were re-focussed to reflect the principled and risk focussed basis of assurance work, replacing specific compliance with a requirement to address the relevant risk to the practitioner's conclusion or to stakeholder understanding of that conclusion.

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?

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

(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?

(a) Yes

(b) Yes

(c) We do not see a difference in principle between reasonable assurance and limited assurance engagements, inasmuch as the assurance provider needs some understanding of the relevant operations of the client entity to guard against the risk that their procedures fail to address key matters. However, the effort required to obtain a sufficient understanding for the purposes of the engagement may be quite low for some assurance engagements, depending on the nature of the subject matter information (and in the case of direct engagements, the assurance providers own involvement in preparation).

3. With respect to attestation and direct engagements:

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

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

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

In particular:

(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))?

(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?

(a) Yes.

(b) Yes. However, as noted in our covering letter practitioners who are not familiar with the wide scope of direct assurance engagements may see the definitions of direct engagements as rather abstract. Case study examples of direct engagements would be a useful addition to the application material or other explanatory material.

(c) (i) In principle yes. However, it would be helpful to have clearer explanation of how the concept of misstatement applies to direct engagements where the conclusion is the subject matter information, having regard to the combined risks which arise from the practitioners own work, information provided by the client, uncertainties inherent in the subject matter information, and procedures designed to provide less than absolute assurance.

(c) (ii) Yes. Provided the applicable criteria are clearly presented and available to the user, then the guidance is sufficient. However, it would be helpful to provide examples of practitioner selection and development of criteria in the application guidance or other explanatory material.

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?

(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?

(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?

(a) Yes. It is essential that the user has a clear understanding of the robustness of the evidence base that supports the assurance provided. This includes an understanding of the scope of the engagement, the criteria, the rationale behind the specification and/or development and selection of criteria, and the methodology applied.

(b) Yes.

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?

Yes

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?

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

(a) We agree with this approach, in line with our comments on ED ISAE 3410 which acknowledges that practice is developing which goes wider than the accountancy specialism, and that work on Greenhouse Gases Statements will inevitably have a multi-disciplinary aspect.

It will also be helpful for many public sector SAIs which carry out value for money and other assurance work using subject expert teams or multi-disciplinary teams.

(b) Yes

Public Sector—Recognizing the applicability of proposed ISAE 3000 to many assurance engagements in the public sector, the IAASB invites respondents from this sector to comment on the proposed ISAE, in particular on whether, in their opinion, the special considerations in the public sector environment have been dealt with appropriately in the proposed ISAE.

We expect that the standard will be of use to SAIs, RAIs and other public sector auditors in providing a framework and/or standards for a substantial portion of their work which is not covered by ISAs.

Small-and Medium-Sized Practices (SMPs) and Small-and Medium-Sized Entities (SMEs)—Recognizing the applicability of proposed ISAE 3000 to assurance engagements on historical financial information in a SME context or by SMPs, the IAASB invites respondents from this constituency to comment on the proposed ISAE, in particular on the scalability of requirements.

CIPFA has no observations to make on this matter.

Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposed ISAE, in particular, on any foreseeable difficulties in applying it in a developing nation environment.

CIPFA has no observations to make on this matter.

Translations—Recognizing that many respondents may intend to translate the final ISAE for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed ISAE.

CIPFA has no observations to make on this matter.

Effective Date—The IAASB believes that an appropriate effective date for the final ISAE 3000 would be 12–15 months after approval of the final standard but with earlier application permitted. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the ISAE.

The proposed timetable appears reasonable.