



**CONSIGLIO NAZIONALE
DEI DOTTORI COMMERCIALISTI
E DEGLI ESPERTI CONTABILI**

MINISTERO DELLA GIUSTIZIA

Il Direttore Generale f.f.

FM/INT/gp

James Gunn
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

Rome, 5 August 2011

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

The Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (hereinafter CNDCEC) is pleased to submit its comments to the above mentioned Exposure Draft.

CNDCEC deems that the proposed document provides general guidelines which are exhaustive in their most relevant parts, to regulate audit works on documents other than the typical annual financial statements. Such guidelines, which, hopefully, will be followed by the issue of some further documents defining more in detail the different kinds of engagement, will be a precious support to increase the level of credibility and usability of information means other than financial statements. The different stakeholders will have the opportunity to benefit from the assurance provided on documents presenting relevant information.

However, considering the importance and extent of the scope of ISAE 3000, we hope IAASB will make a further effort, aimed at producing additional documents, including specific guidelines about the procedures to be applied, which should be differentiated according to the nature of the reports to be audited.

Furthermore, we want to highlight that both at Italian and international level the issue of non-financial information is highly debated. Such increasing attention depends on the importance attributed to this kind of information by the different stakeholders as well as on the fact that non-financial information is included in both the notes and the management report (for example, sustainability reporting, environmental impacts, manpower, etc.).

Please find below our comments concerning the specific questions raised in the Exposure Draft.

We would be pleased to discuss with you any aspect of our considerations that you should feel need further clarification.

Kind regards,

Acting C.E.O.

Francesca Maione

C.N.D.C.E.C.
REGISTRO UFFICIALE
0008784 - 05/08/2011 - USCITA
Allegati : 0



Foreword

With reference to the Italian situation, the experience of enterprises, audit firms and professionals as to the audit of documents containing information other than historical financial information is not so pervasive as the audit activity on annual financial statements.

In our country, for example, the extant ISAE 3000 is concretely applied in contexts such as:

- The oversight activities required by the Bank of Italy related to the issue of covered bonds;
- The review activities of social or sustainability reports and the model of representation letter to be used in such circumstances.

The mentioned oversight activities are currently disciplined by documents issued by professional bodies, and are similar to a limited review – as provided for by ISAE 3000 revised – both in the substance of control activities and in the form of the report which contains conclusions in a negative assurance form. Such engagements, on account of the limited diffusion of engagements to which ISAE 3000 is currently applicable and of specific requirements contained in the tender for the engagement (oversight regulation of the Bank of Italy), are an exclusive prerogative of audit firms.

We are confident that the documents which will more concretely define the scope of the mentioned ISAE, providing for their effective adoption, can represent a real challenge also for single professionals or small audit firms.

Request for specific comments

Question 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?

ISAE 3000 regulates the performance of all audit works other than the audit or review of historical financial information. Therefore, it contains extremely general representations, also on account of its very wide scope. However, provided the aforesaid on the need to specify the application methods in some additional and more detailed standards, ISAE 3000 seems to contain the elements necessary to ensure the performance of quality engagements considering that, in case of lacking rules in the extant ISAE, professionals are allowed to refer to both ISREs and ISAs.¹

Furthermore, we recommend that the upcoming explanatory documents contain specific guidelines to regulate the activities aimed at verifying the information included into the reports, on which assurance has to be provided. The content of such information, depending on the scope of the engagements, could be completely separated from the financial information included into the financial reports (for example the financial statements for the period and the management report), but could also contain significant integrations to the information traditionally provided by the enterprises by means of the financial statements for the period. In such latter case, we deem important to define the extent to which the preparers of the assurance report on non-financial information should rely on the content of the documents relating to financial data and information.

¹ See A 150 page 70 ISAE 3000 revised “The summary of the work performed helps the intended users understand the nature of the assurance conveyed by the assurance report. For many assurance engagements, infinite variations in procedures are possible in theory. In practice, however, these are difficult to communicate clearly and unambiguously. ISA 700, the ISREs and subject matter-specific ISAEs may provide guidance to practitioners on the appropriate type of summary”.

Question 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?

ISAE 3000 clearly defines the difference between reasonable assurance engagements and limited assurance engagements, identifying their distinctive elements in the extent of the procedures to be carried out and accordingly in the risk underlying the engagement. The difference in the procedures applied results in a different wording of the conclusions, which in the case of a limited assurance engagement take a negative form.

We suggest, however, to clarify, even though in indicative terms, when it is more appropriate to make use of a limited assurance rather than a reasonable assurance. For example, in case one or more of the following circumstances occur:

- The assurance on the report is voluntary;
- No legal provision regulates the preparation of the report;
- Qualitative information is widely available;
- The information and internal control systems are considered inadequate;

it is deemed that the audit activity cannot be performed with the extent required in order to carry out an activity aimed at expressing a reasonable assurance and conclusions in a positive form.

In circumstances similar to those mentioned above, a provision should be included stating that the practitioner may carry out only activities aimed at providing a limited assurance.

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

In general terms we deem that the material proposed is adequate for both kinds of engagements, however we wish that some more practical details will be included in the upcoming explanatory documents.

(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?

We deem appropriate that, also in limited assurance engagements, the practitioner obtains an understanding of the mechanisms of the functioning of the internal control system rather than a deep understanding of such system. This understanding, although limited, could, in our opinion, make the procedures performed more effective and help reduce the related risk. Moreover, the understanding of the mechanisms for the functioning of the internal control system is a procedure already applied where assurance is provided on sustainability reports.

Question 3

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||?

We believe the terminology is clear and appropriate.

We would however deem more consistent with the extant ISAE 3000 the replacement of the word “auditor” at page 58 with the word “practitioner”.

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

ISAE 3000 seems, at least in general terms, to clarify the differences between attestation engagements concerning the control of the practitioner on the information prepared by a third party, and direct engagements concerning the information directly provided by the practitioner.

Also in this case we wish that some more details will be provided in the upcoming documents.

(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))?

Considering that the document is quite general, and the content of paragraph 36 and appendices A 84, A85 and A 86, we deem that the concept of materiality of the misstatement is clearly expressed. However, CNDCEC believes fundamental the provision of a more specific and clearer definition (differentiated according to the kind of engagement) of the threshold beyond which the error or the omission (or the aggregate of errors or omissions) is considered material.

(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 general, the proposed ISAE 3000 seems to be exhaustive, but some more details are expected in the upcoming documents.

In our opinion, however, a discipline could be defined as to the management of the relations and the exchange of information with the precedent practitioner or with the auditors of the financial statements if different from those in charge of performing the review activity according to the provision of ISAE 3000.

Question 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?

Given the wide extent of the potential applications and of the applicable criteria, we deem fundamental to include a summary of the procedures performed in order to assess the appropriateness and relevance of the conclusions reached.

We believe it would be important to define more in detail the extent to which the practitioner can make use of the Emphasis of matter paragraph in preparing his/her report.

Furthermore, in our opinion, it would be also important to include, at the end of the paragraph identifying the procedures, an explicit reference to the representation received, in case the selected criteria are neither provided for by the law, nor coded by a widely recognized external body, just to make an example:

"We have finally obtained the representation that, to the best of management's knowledge, no significant modification has occurred to the data and information considered while performing the controls required for the issue of this report, and that no events have occurred which require modifications to the criteria or parameters adopted to perform the engagement."

(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?

In our opinion, the content of the document is 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?

Given the wide scope of ISAE 3000 and its very general nature, it seems difficult to increase its level of detail of the procedures to be performed. However, such level of detail can be reached in more specific standards.

Question 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?

As previously mentioned, a precise definition concerning the quantity is difficult to achieve, therefore the solution chosen reflects the need to maintain the conclusion at a general and universally applicable level. Also in this case there is a clear analogy with the standards regulating the review procedures on financial information (ISRE).

Question 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?

The possibility of application by practitioners other than the professional accountants surely widens the number of people who can perform such engagements, submitting the different categories of professionals to rules having the final purpose of achieving high quality results. It is however very

important, in our opinion, to stress that these “other practitioners” should, as a minimum requirement, be enrolled in professional Registers and be subject to some degree of public or at least independent oversight (see answer to Question 6b).

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

The definition should take into account the possible differences in the regulations of the various countries.

At least the enrollment in professional Registers should be required, and some degree of public or at least independent oversight. ISAE 3000 states however some minimal requirements as to quality control (making reference to ISQC 1) and ethical requirements (making reference to the Code of Ethics for Professional Accountant).