

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

DATE

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

Dear Sir or Madame,

Thank you for the opportunity to comment on the IAASB's exposure draft that proposes changes to ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.

Canada is one of the few countries in the world whose legislative auditors base their performance audit reports (direct reporting engagements) on assurance standards. As such, the existing equivalent Canadian standard is used extensively by our Office, and other legislative audit offices throughout Canada. We feel that it is imperative that we comply with relevant professional standards to ensure the completion of credible, high quality engagements. This is facilitated by the availability of robust standards that are sufficiently flexible to allow us to adapt them appropriately to our circumstances.

It is the view the Office of the Auditor General of Canada that the proposed standard is written with too much of a financial audit perspective. The proposed standard does not reflect the evolution of assurance engagement practices in Canada nor does it meet the needs of Canadian practitioners, particularly those in the public sector who conduct direct reporting performance audit engagements.

The proposed standard's limitations are numerous and are outlined below. Some of the most significant issues relate to the concepts of misstatement, accumulation of misstatements, subject matter information, acceptance and continuance preconditions and the public sector risk of non compliance with the ISAE.

Our responses to the specific questions posed in the exposure draft are provided below.

Sincerely,

Andrew Lennox
Assistant Auditor General of Canada

Responses to IAASB questions in the exposure draft:

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?

RESPONSE: We do not believe that proposed ISAE 3000 will result in the consistent completion of high quality assurance engagements. Specifically, we have the following concerns:

The term "misstatements"- The definition of a misstatement to include "intentional, unintentional, and include omissions" demonstrates the primarily attest foundation of the standard. In a direct engagement, given the practitioner evaluates the subject matter based on criteria; the concept of "error" differs.

The intent of the standard is that it be principle based and applicable to a wide range of assurance engagements. To achieve this goal, we recommend that the definition of a misstatement be revised to more clearly articulate that it is a failure to meet a criterion and remove the discussion in the last sentence of the definition related to how a misstatement could arise.

The accumulation of misstatements during the engagement - P43 states the following: *The practitioner shall accumulate uncorrected misstatements identified during the engagement other than those that are clearly trivial.*

Unlike a financial statement audit where the auditor compares the total value of misstatements against a quantitative threshold at the end of fieldwork to help form his/her conclusion, engagements performed in compliance with ISAE 3000 often accumulate instances of non-compliance with criteria (not misstatements) and assess the impact of these deficiencies on his/ her conclusion. For these engagements, misstatements and quantitative materiality are not relevant. For this requirement to be useful to public sector auditors, the guidance in the standard must include a broader discussion around the nature of deficiencies that should be accumulated by the practitioner during the engagement. The guidance can't be based solely on quantitative concepts like "accumulating misstatements", but rather should include the need for the practitioner to accumulate details about evidence to conclude that the criteria have been met. The practitioner would later assess the impact of those accumulated details.

Subject Matter Information

We have great difficulty differentiating between the concepts of "subject matter", "subject matter information" and "evidence". As an example, it is not clear to us what the difference between the "evidence" and the "subject matter information" is. We would see benefits in not using similar terminology, eliminating one of the terms or clarifying the definitions.

All acceptance and continuance requirements must be met - Our overarching concern is that certain of the acceptance and continuance requirements in revised 3000 are not appropriate in a public sector direct reporting engagement.

For example, an auditor in a direct reporting engagement would normally be unable to establish whether preconditions for an audit are present prior to commencing the audit as required by 18(c)(i).

These preconditions include whether:

- roles and responsibilities of the appropriate parties are suitable in the circumstances (20(a));
- the underlying subject matter is appropriate (20(b)(i));
- criteria to be applied in the preparation of the subject matter information are suitable (20(b)(ii); and
- the practitioner will have access to the evidence needed to support his conclusion (20(b)(iii)).

Canadian public sector auditors would not be able to comply with this ISAE because they usually need to conduct a non-trivial amount of audit work before they can establish these preconditions.

It is clear that the IAASB recognizes that assurance engagements performed in the public sector will face some unique challenges, and has included guidance in paragraph A33 to address some of these challenges. We feel however, that a more appropriate solution is to have the standard modified for public sector engagements, allowing the practitioner in situations where not all of the preconditions for an engagement have been met, to complete the engagement in all other respects in compliance with the standard. The standard should include guidance describing how the practitioner should exercise his/her professional judgment in instances where some or all of the preconditions are absent and how this could impact the conclusions in his/her report.

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?

RESPONSE: Yes, the definitions and explanations are appropriate.

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

RESPONSE: Yes, the requirements as they relate to a reasonable assurance engagement and a limited assurance engagement are appropriate.

(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?

RESPONSE: Yes, we believe that it is appropriate for 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.

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?

RESPONSE: Yes, the change in terminology is acceptable.

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

RESPONSE: The definitions currently in place in the existing Canadian equivalent standard, Section 5025, *Standards for assurance engagements other than audits of financial statements and other historical financial information*, are considerably clearer than those in proposed ISAE 3000. We would recommend the adoption of the following definitions found in paragraph 5 of Section 5025, in place of those proposed in the exposure draft:

In an **attest engagement** the practitioner's conclusion will be on a written assertion prepared by the accountable party. The **assertion** evaluates, using suitable criteria, the subject matter for which the accountable party is responsible. In a **direct reporting engagement**, the practitioner's conclusion will evaluate directly, using suitable criteria, the subject matter for which the accountable party is responsible.

(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))?

RESPONSE: Although in both types of engagements, the underlying subject matter is measured against criteria, in a direct engagement, a "material misstatement" would be the result of the subject matter information not meeting the criteria. This differs from an attestation engagement where a material misstatement would occur as a result of the entity's assertion being incorrect. The objective in the proposed standard addresses only an attestation engagement perspective.

We recommend that the objective be broadened to encompass both types of assurance engagements.

(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?

RESPONSE: Please see our response to question 1 above as many of our concerns relate to direct engagements.

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?

RESPONSE: Yes, we feel it is appropriate that the summary of work performed is included in the practitioner's report to allow users to put the conclusion in the appropriate context.

(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?

RESPONSE: Yes, we feel it is appropriate that the practitioner's report describe the limitations of the report based on the work 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?

RESPONSE: No, the description of the nature of a limited assurance engagement is sufficiently clear in the proposed standard that no further guidance is required regarding the disclosures of the procedures performed in the practitioner's report. Given that there are no examples provided in the standard of the description of procedures performed for a reasonable assurance engagement, it does not seem appropriate to include them only for limited assurance 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?

RESPONSE: Yes, the proposed wording is clear, concise and understandable and adequately describes the practitioner's conclusion.

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?

RESPONSE: Yes, we agree that the standard be applicable to all competent practitioners.

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

RESPONSE: Yes, we agree with the proposed definition of practitioner.

OTHER COMMENTS FOR THE IAASB'S CONSIDERATION ON THE PROPOSED CHANGES TO ISAE 3000

The IAASB has asked that respondents bring to its attention matters of specific interest to the public sector. We have the following concerns with the proposed revisions to ISAE 3000 for the IAASB's consideration.

Assurance Report Content

The requirements in revised ISAE 3000 give the impression that practitioners will adopt a short form report as the standard reporting format. For the Canadian legislative auditing community, this is not the standard reporting format currently in place, and we are of the opinion that a change to this style of report will seriously detract from their reports' usefulness and understandability.

Based on our review of the requirements in revised ISAE 3000, we have identified concerns with some requirements which could result in reporting that may be inappropriate in a public sector environment.

Minimum content requirement - The assurance report is to include specific minimum content. (Ref paragraph 60) We are concerned about how the proposed format requirements will alter the established and accepted long form reports currently prepared by legislative auditors for legislative assemblies. Please find linked here some of our recently issued long form performance audit reports for examples of our current reporting practices.

http://www.oag-bvg.gc.ca/internet/English/parl_oag_201104_e_35230.html

Compliance with independence and ethical requirements - The assurance report is to contain a statement that the practitioner complies with independence and other ethical requirements. The requirement to address a practitioner's independence in an assurance report but not in a financial auditor's report creates an inconsistency in reporting requirements that are part of the IAASB framework. The reason for this difference is not clear. (Ref paragraph 60j) We encourage consistency between the two sets of standards.

Findings and Recommendations

Revised ISAE 3000 has requirements regarding the reporting of the practitioner's findings and recommendations. Based on our review of the revised ISAE 3000, we have three concerns with the draft standard.

Emphasis of matter - The standard does not set out what is meant by "emphasis of matter". Emphasis of matters is not described or defined in revised ISAE 3000. To ensure consistent application of this requirement, guidance should be included in the standard defining and discussing "emphasis of matter", particularly given the range of engagements that may be performed using this standard.

Conclusions relate to findings - It seems inappropriate to suggest "that findings, recommendations or similar information is not intended to detract from the practitioner's conclusion". (Ref paragraph 59) Findings arise as a result of the work done by the practitioner to reach a conclusion and directly contribute to reaching a conclusion.

To ensure clarity and appropriate application of the standard by practitioners, "findings" should be defined or examples given to ensure consistent application of the standard (i.e., findings are positive findings or deficiencies/deviations which support a conclusion). We recommend that paragraph 59 be amended to recognize the relationship between findings, conclusions and recommendations and that findings support and not detract from a practitioner's opinion. Revised ISAE 3000 would be improved by requiring the reporting of these elements in the practitioner's long form report when explaining his/her conclusion.

Conclusion and recommendations - The requirements in paragraph 59 seem to suggest a single conclusion, whereas some direct reporting engagements may involve conclusions around each audit objectives rather than one single conclusion. It is not a matter of whether the subject matter information is correct or not, but rather whether the evidence met the criteria or not, leading the practitioner to conclude on the audit objectives.

We recommend that the standard be revised to allow for multiple conclusions on various audit objectives within a single report. This is consistent with current Canadian auditing standards (HB Section 5025, paragraph 64).

Risk of fraud and illegal acts - The presence of fraud or other illegal acts should be considered by the practitioner when planning procedures to gather sufficient appropriate evidence to support the engagement conclusion. The revised standard should include requirements about assessing the risk that the underlying subject matter or the subject matter information fails to meet a criterion as a result of fraud or illegal acts.