

22 September 2011

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

Dear Mr. Gunn:

Proposed ISAE 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and Proposed Consequential Amendments to the International Framework for Assurance Engagements, ISAE 3402 - Assurance Reports on Controls at a Service Organization and Exposure Draft of Proposed ISAE 3410 - Assurance Engagements on Greenhouse Gas Statements

Ernst & Young Global Limited, the central entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the proposed International Standard on Assurance Engagements (ISAE) 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (proposed ISAE 3000) as well as the proposed consequential amendments.

We agree with the International Auditing and Assurance Standards Board (IAASB) that a revision to ISAE 3000 is timely to clarify how some of its core underlying concepts should be applied in practice, as a result of the experience gained since ISAE 3000 was approved by the IAASB in December 2003. We also support the IAASB's intention for proposed ISAE 3000 to be a principles-based standard that is capable of being applied to a broad range of underlying subject matters and to provide a basis for current and future subject-specific ISAEs.

Our comment letter is organized as follows:

Section 1 – Responses to specific questions on which the IAASB is seeking feedback

Section 2 – Responses to other matters on which the IAASB is seeking feedback

Section 3 – Comments on proposed ISAE 3000, including editorial comments

Section 4 – Comments on proposed consequential amendments

1. Responses to specific questions on which the IAASB is seeking feedback

- 1.1. *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?*

We believe that proposed ISAE 3000 will result in a high quality assurance standard while providing sufficient flexibility to accommodate a broad range of engagements to which proposed ISAE 3000 will apply. However, to enable consistent application in practice, proposed ISAE 3000 would benefit from illustrative reports and examples, such as examples of differences in procedures between reasonable and limited assurance engagements.

- 1.2. *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?*

We believe that the definition of a reasonable assurance engagement should include a reference to a “high, but not absolute, level of assurance” consistent with the way reasonable assurance is defined in the ISAs and in ISQC 1.

We also have some concerns with the definition of a limited assurance engagement, specifically as it relates to obtaining a level of assurance that is, in the practitioner’s professional judgment, meaningful to the intended users. Although we agree with the comment in paragraph A2 of proposed ISAE 3000 that the level of assurance that the practitioner plans to obtain is not ordinarily susceptible to quantification, we do not believe it is possible for the practitioner to evaluate whether the level of assurance obtained is meaningful to the intended users without engaging with them. Guidance is therefore needed for the practitioner to evaluate whether the level of assurance obtained is sufficient for the practitioner to be associated with the limited assurance engagement and the conclusion expressed in the limited assurance report.

- b. *Are the requirements and other material in proposed ISAE 3000 appropriate to both reasonable assurance engagements and limited assurance engagements?*

Yes. However, in some instances it would be helpful for proposed ISAE 3000 to articulate more clearly that the procedures for a limited assurance engagement would be less than that for a reasonable assurance engagement or how the procedures may differ in nature, timing and extent.

- 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?*

No, although proposed ISAE 3000 could indicate that, for limited assurance engagements, an understanding of internal control over the preparation of the subject

matter information may be an effective approach when it is relevant to the underlying subject matter, for example, if the subject matter information depends on the continuous operation of controls.

1.3. *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”?*

Yes.

- b. *Does proposed ISAE 3000 properly define, and explain the difference between, direct engagements and attestation engagements?*

We believe that the concept of a direct engagement needs to be further explained, including practical examples. The application material should also cover situations when it would not be acceptable for a practitioner to accept such an engagement.

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))?*

As outlined in the Explanatory Memorandum to proposed ISAE 3000, in the case of a direct engagement where the practitioner’s conclusion is the subject matter information, proposed ISAE 3000 makes no distinction between a misstatement in the subject matter information and a failure (in a reasonable assurance engagement) of the practitioner to detect a material misstatement. We recognize that, from a reader’s perspective, the subject matter information conveyed is nevertheless misstated. For that reason, the practitioner’s objective in paragraph 6(a) is appropriate in light of the definition of a misstatement. We believe, however, that the application material to the definition of a direct engagement (as it relates to the practitioner’s objective) should clearly explain the rationale why this is the case.

- 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?*

No, we believe that more application material is needed to assist the practitioner in determining whether the applicable criteria constitute suitable criteria for purposes of the direct engagement. In addition, paragraph 60 (d) should require

disclosure, in the assurance report, of the factors considered by the practitioner in selecting or developing the applicable criteria.

1.4. *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. However, for a limited assurance engagement, because the presumption is that more information is needed to understand the assurance being conveyed than for a reasonable assurance engagement, this may have the unintended consequence of users believing that the level of assurance obtained by the practitioner is greater as a result.

- 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?*

Yes, we believe that it is essential that this be emphasized in the limited assurance report.

- 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?*

Paragraphs A150–A153 provide useful guidance on summarizing the work performed. However, we believe that further guidance regarding the level of detail needed for the summary is required. Examples of the boundaries stated in paragraph A153 (i.e., not repeating the entire work plan yet not too ambiguous) would be helpful.

- 1.5. *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, as long as the assurance report clearly states that the practitioner's procedures are more limited than for a reasonable assurance engagement and consequently 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.

1.6. *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, we agree with the proposed application of the standard by competent practitioners other than professional accountants in public practice.

b. Do respondents agree with the proposed definition of “practitioner”?

No. Given that an “assurance engagement” is defined in paragraph 8 (a), we suggest that the definition of practitioner be simplified, as follows:

Practitioner – The individual (s) conducting an assurance engagement (usually the engagement partner, or other members of the engagement team, or, as applicable, the firm). Where this ISAE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used. (Delete the remainder of this paragraph).

In order not to lose the reference to “assurance skills and techniques” in paragraph 8 (q), we suggest adding the reference to paragraph 8 (a), as follows:

Assurance engagement – An engagement in which a practitioner applies assurance skills and techniques aims to obtain sufficient appropriate evidence....

2. Responses to other matters on which the IAASB is seeking feedback

2.1 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.

We believe the proposed effective date should provide a sufficient period to support the effective implementation of proposed ISAE 3000. However, we have concerns relating to earlier application of proposed ISAE 3000 being permitted. In practice, this would mean that, after approval of proposed ISAE 3000, engagements could be performed for a 12-15 month period either under extant ISAE 3000 or under proposed ISAE 3000. As assurance engagements performed under either standard would refer to ISAE 3000 in the assurance report, this could lead to confusion in the marketplace. Unless there is a way to distinguish between extant ISAE 3000 and proposed ISAE 3000 (for example, by stating that the engagement was performed under ISAE 3000 (revised)), we do not believe that it would be advisable to permit early adoption of proposed ISAE 3000.

3. Comments on proposed ISAE 3000, including editorial comments

3.1 Preconditions for the assurance engagement

Paragraph 20 (a) indicates that in order to establish whether the preconditions for an assurance engagement are present, the practitioner shall determine whether the roles and responsibilities of the appropriate parties are suitable in the circumstances. Paragraph A34 explains that all assurance engagements have at least three parties: the responsible party, the practitioner and the intended user. The requirement in paragraph 20 (a) does not clearly convey the need for a three-

party relationship to exist as a precondition for the assurance engagement. This could be addressed by adding a new paragraph 20 (a) (existing paragraphs 20 (a) and 20 (b) would become paragraphs 20(b) and 20(c), respectively), as follows:

“In order to establish whether the preconditions for an assurance engagement are present, the practitioner shall determine whether:

(a) There is a three party relationship to the assurance engagement (Ref: Para. A34)..”

In addition, paragraph A34 should specify that the responsible party, who also can be the engaging party, can be one of the intended users, but not the only one.

3.2 Materiality

We agree with the guidance included in proposed ISAE 3000 relating to materiality, in particular that determining materiality and evaluating misstatements involve professional judgment and such judgments are based on a consideration of the common needs of intended users as a group. However, we believe that practitioners would benefit from expanded guidance and emphasis on certain aspects of materiality, for example:

- Situations when more than one materiality level may be needed for different elements of the subject matter information
- Emphasis that qualitative factors may cause the practitioner to evaluate some misstatements as material
- Assessment of misstatements individually and in the aggregate, for example, when it may be more appropriate to evaluate misstatements as to their impact on the intended user’s economic decisions on an individual basis.

3.3 Fraud

References to risks of material misstatement due to fraud are limited in ISAE 3000 – fraud is mentioned as a factor to consider in planning, in the definition of a misstatement (where it is acknowledged that a misstatement can be intentional or unintentional) and as a matter to consider when communicating with appropriate parties. We believe that an increased focus on fraud in proposed ISAE 3000 is warranted. An increased focus on fraud would entail, for example, a discussion on possible reasons to intentionally misstate the subject matter information, or how identified risks of material misstatement due to fraud may affect the procedures performed on the subject matter information.

3.4 Planning the engagement

Paragraph 35 requires the practitioner to plan the engagement, including setting the scope, timing and direction of the engagement, and determining the nature, timing and extent of planned procedures that are required to be carried out in order to achieve the objective of the engagement. Paragraph A80 introduces the concepts of “overall strategy” and “engagement plan” but those concepts are not referred to explicitly in the requirement in paragraph 35 nor are they consistent in the way planning is explained in paragraph 35. We suggest that the concepts of “overall strategy” and “engagement plan” be moved to the requirement and that they be explained in the application material. Our proposed changes to those paragraphs are as follows:

Paragraph 35

The practitioner shall plan the engagement so that it will be performed in an effective manner, including developing an overall strategy and an engagement plan ~~setting the scope, timing and direction of the engagement, and determining the nature, timing and extent of planned procedures that are required to be carried out~~ in order to achieve the objective of the engagement.

Paragraph A80

Planning involves the engagement partner, other key members of the engagement team, and any key practitioner's external experts developing an overall strategy ~~for~~ setting the scope, emphasis, timing and conduct of the engagement, and an engagement plan, consisting of a detailed approach for the nature, timing and extent of procedures to be performed ~~and the reasons for selecting them...~~

3.5 Assurance procedures

Paragraph 39 requires the practitioner to apply assurance skills and techniques as part of an iterative, systematic engagement process. It would be helpful to add application material to explain how the practitioner is expected to demonstrate that the requirement has been met.

Paragraph 41 (b) emphasizes that the practitioner is required to respond to assessed risks by determining the nature, timing and extent of procedures that are clearly responsive to the assessed risks. Unless application material can be provided to explain how the practitioner determines that the procedures are "clearly" responsive to the assessed risks, we suggest that the emphasis be deleted.

3.6 Editorial comments

- Paragraph 6 (c) – We suggest adding the following words for greater clarity: "To communicate ~~further~~ as otherwise required by this ISAE and other relevant ISAEs, in accordance with the practitioner's findings."
- Paragraph 21, second sentence – We suggest the following words for a better alignment with the first sentence: "If changes cannot be made ~~to meet~~ for the preconditions to be present..."
- Paragraph 53, last sentence – We suggest deleting "to affect" as follows: "for such events to affect the subject matter information and ~~to affect~~ the appropriateness..."
- Paragraph 56 (a) – The reference to paragraph 44 is not necessary and could be deleted. Should it be retained, it should be amended as follows: "The practitioner's conclusion ~~in~~ (see paragraph 44) regarding..."
- Paragraph A23 first sentence – We suggest replacing the word "following" with "applying" and the word "firm" with "practitioner" as follows "... in ~~following~~ applying the ISAEs, and requirements designed to enable the ~~firm~~ practitioner to meet those objectives."
- Paragraph A24 – We suggest adding "the practitioner" in the first sentence to make it clearer: "... and are intended to assist the practitioner in..."
- Paragraph A47 – We suggest replacing the word "designed" with "developed" in the first sentence: "If criteria are specifically ~~designed~~ developed for the purpose..."

- Paragraph A50 – The last sentence of the paragraph (“Ordinarily, evidence will be persuasive rather than conclusive”) seems out of context and we suggest it be deleted.
- Paragraph A60 – We suggest replacing “experience” with “competence” in the sub-heading above paragraph A60 to be consistent with the wording in paragraph 27 (b).
- Paragraph A61 – We suggest replacing “experience” with “competence” in the sub-heading above paragraph A61 to be consistent with the wording in paragraph 27 (b).
- Paragraph A64 – We suggest adding “in paragraph” as follows: “...or in paragraph 42...”
- Paragraph A75, second bullet – We suggest the following changes: “The nature, timing and extent of procedures ~~used~~ performed to meet ~~meet~~ achieve the aim of the requirements...”
- Paragraph A99 – We don’t believe that the references to paragraph 43 and to paragraph 56(b) within the text are necessary, as those references are already made in the sub-heading above paragraph A99 and therefore suggest they be deleted.
- Paragraph A123 – We suggest that “audit” be replaced with “assurance” in the first and second bullets.
- Paragraph A130 – We suggest replacing “advises” with “informs” in the following sentence: “The description of the applicable criteria ~~advises~~ informs intended users...”
- Paragraph A132 – We suggest the following amendments: “...as it may mislead the intended users of the ~~subject matter information~~ assurance report.”
- Paragraph A145 – For greater clarity, we propose the following wording: “...in other cases, it may be appropriate to explicitly refer to such limitations ~~make explicit reference~~ in the assurance report.”
- Paragraph A146 – We propose the following changes to the first sentence: “In some cases, the criteria used to measure or evaluate the underlying subject matter ~~information~~ may be ~~designed~~ developed for a specific purpose.”
- Paragraph A148 – For greater clarity, we propose the following changes to the paragraph: “Identifying the relative responsibilities of the responsible party and the practitioner informs...” In the first and second bullet, we suggest replacing “role” with “responsibility”.
- Paragraph A152 – The first sentence is very long and its main message is somewhat lost. We suggest breaking the first sentence into two sentences, as follows: “In a limited assurance engagement, the conclusion is expressed in a form that conveys that, based on the procedures performed, nothing has come to the practitioner’s attention to cause the practitioner to believe that subject matter information is materially misstated. An appreciation of the nature, timing and extent of procedures performed is essential to understand the assurance conveyed by this form of conclusion and therefore, the summary

of work performed is ordinarily more detailed than for a reasonable assurance engagement and identifies the limitations on the nature, timing and extent of procedures.

- Paragraph A160 – We believe that the sentence would read better with the following changes: “ ~~Including the assurance report~~ The date of the assurance report informs the intended users ...”
- Paragraph A167 – We suggest redrafting the first sentence, in line with the wording in ISA 230, paragraph 8 (c): “ Documentation includes a record of the significant professional judgments made in reaching conclusions on all significant matters arising during the assurance engagement.”

We also noted a number of typographical errors, as follows:

- Paragraph 16 – Add “)” at the end of the reference: (Ref. Para. A28-A32, A57)
- Paragraph 26 – The reference to paragraph 61 should be to paragraph 62.
- Paragraph 32 (b) – Replace “.” with “:” in: “This evaluation shall involve:”
- Paragraph 60 (l) (i) – The reference to paragraph A158 should be to paragraph A156.
- Paragraph 66 – Remove the word “that” as follows: “...and the matter(s) that causes ~~that~~ the subject matter information to be materially misstated.”
- Paragraph 67 (b) – Add “a” to the sentence as follows: “...to word the conclusion in terms of a statement made by the measurer or evaluator...”
- Paragraph A2 – Add a period to the end of the first sentence i.e., “...information needs of intended users.”
- Paragraph A7 – Add a reference to para. 8(n) in the subheading above paragraph A7.
- Paragraph A24 (a) – Add “to” as follows: “Understanding what is to be accomplished...”
- Paragraph A36 – Add “a” in the third sentence, as follows: “...to provide the measurer or evaluator with a reasonable basis that”
- Paragraph A86 (c) – Remove “the” to read “... uncertainties involved in ~~the~~ measuring of evaluating...”
- Paragraph A106 - Add an “s” in “...one or more practitioner’s experts...”
- Paragraph A112 – Add an “s” in “...to the engagement objectives.”
- Paragraph A124 – Add an “s” to misrepresentation at the end of the first bullet.
- Paragraph A132 – Add a comma after the word “imprecise” i.e., “...contains imprecise, qualifying or...”
- Paragraph A134 first bullet – Change “its” to “it” as follows: “...and the likelihood of its having a material....”

- Paragraph A135 (a) – remove the word “it” to read “documentation the practitioner considers # necessary to inspect...”
- Paragraph A135 (b) – remove the word “it” to read “a physical process the practitioner considers # necessary to observe...”
- Paragraph A135 (c) – Replace the word “who” with “which” to read “...on the practitioner *which*, for example, may prevent...”
- Paragraph A137 last sentence – Include the word “by” after “imposed” and add a space after “party(ies)” as follows: “...is imposed by the appropriate party(ies)_after a limited assurance engagement...”
- Paragraph A140 last sentence – Add the word “to” to read “...and worded in such a manner so as to make it clear that...”
- Paragraph A149 including the title – Add a hyphen to the term “subject matter-specific” to be consistent with the text in proposed ISAE 3000.
- Paragraph A168 last sentence – Add the word “the” to read “Similarly, the practitioner need not include in the engagement file...”
- Paragraph A172 first line – Pluralize the word “regulations” as follows: “...requirements in laws or regulationss that are...”

4. Comments on proposed consequential amendments

4.1 Framework

Paragraph 24 – please refer to our comment in section 3.1 above.

4.2 ISAE 3402

Paragraph 2 – The word “underlying” should be added to the last sentence, as follows: “This ISAE only deals with ...in terms of the underlying subject matter and the criteria.”

We would be pleased to discuss our comments with members of the International Auditing and Assurance Standards Board or its staff. If you wish to do so, please contact Dan Montgomery (+1 216 583 2949) or Denise Esdon (+1 416 943 2982).

Yours sincerely,

Ernst & Young Global Limited