



**Australian Government**  
**Auditing and Assurance Standards Board**

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**Notes on AUASB Roundtable on  
ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical  
Financial Information  
Tuesday, 28 June 2011, Melbourne**

In April 2011, the IAASB issued an Exposure Draft ISAE 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* seeking comments by 1 September 2011. The AUASB in turn issued an invitation to comment on the ED to assist the AUASB in preparing a submission to the IAASB. The AUASB has requested comments by 1 August 2011.

This AUASB Roundtable meeting was to provide input in relation to the questions raised in the ED and to highlight any issues or comments on the *International Framework for Assurance Engagements* which the IAASB has issued with consequential amendments.

**Matters Raised**

The following matters were raised at the Roundtable which will be addressed in preparing the AUASB's submission to the IAASB on proposed ISAE 3000:

**1. Consistency and quality of assurance engagements**

Participants generally thought that the comments in the other areas noted below need to be addressed in order for ISAE 3000 to provide consistent and quality assurance engagements. Participants felt that proposed ISAE 3000 was sufficiently flexible given the broad range of engagements to which it may apply.

**2. Levels of Assurance**

The assurance provided by a limited assurance report should provide a consistent and comparable level of assurance to other limited assurance engagements. However, proposed ISAE 3000 states that "an appreciation of the nature, timing and extent of procedures performed is essential to understanding the assurance conveyed by the practitioner's conclusion" (ISAE 3000 paragraph 60(k)). The explanatory memorandum states that "the level of assurance that the practitioner obtains can vary depending on the procedures performed.". Allowing for limited assurance engagements to provide a spectrum of assurance determined by the procedures performed is neither consistent nor comparable.

Users of the reports have difficulty at times understanding the difference between reasonable and limited assurance, therefore expecting them to understand the level of assurance imparted on the basis of procedures reported is unreasonable. Applying a risk based approach; the procedures performed should be responsive to the assessed risks. More extensive procedures should be in response to higher identified risks, not necessarily to provide a higher level of assurance. If the risk assessment determined a need for an understanding of the internal controls or testing of the internal controls to respond to assessed risk, then this would be undertaken. An understanding of internal control over the preparation of the subject matter is not required under all limited assurance engagements; the outcomes of the risk assessment performed would determine the need for an internal control review or testing to respond to assessed risk.

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Proposed ISAE 3000 should be consistent with ED ISAE 3410 *Assurance on Greenhouse Gas Statements* which explicitly requires a risk assessment to be performed for a limited assurance engagement. This is currently not reflected in paragraph 42 of proposed ED ISAE 3000.

It may be pragmatic to use the subject specific standards to interpret the procedures which should be conducted for limited assurance engagements rather than trying to articulate what the consistent level of limited assurance would entail. In the absence of better articulation of the meaning of limited assurance, consistency may be reached over time through experience and practice of specialised practitioners and industry benchmarking.

### **3. Difference between attestation and direct engagements**

Direct engagements and attestation engagements are appropriately defined in proposed ED ISAE 3000, however the proposed standard does not adequately explain the differences between these types of engagements. This difficulty seems to arise because the proposed standard is focussed primarily on attestation engagements, and appears to have been extended to cover direct engagements in more detail than was previously the case in extant ISAE 3000. As a result, terminology that works well in relation to attestation engagements does not apply as easily when referring to direct engagements. Examples of this are use of the word “misstatement” and “subject matter information” in relation to some direct engagements.

In Australia, a large number of direct engagements are undertaken in the public sector. Feedback from public sector practitioners indicates that the objectives in proposed ISAE 3000 are not appropriate to most of the direct engagements undertaken in the public sector. In many engagements in the public sector, there is no separate subject matter information, only the practitioner’s conclusion. The assurance conclusion is formed by the practitioner after considering the particular subject matter.

To overcome these issues, it may be preferable that separate pronouncements be developed for attestation and direct engagements.

### **4. Describing practitioner’s procedures in the report**

Including a summary of work performed is acceptable in order to communicate the nature of the engagement but not as a means of communicating the level of assurance provided. Consequently the summary should not be too detailed as users may interpret the greater the extent of procedures or certain types of procedures as giving more assurance, when in fact the additional procedures may be conducted in response to higher risks identified.

There is a need for greater granularity around how to interpret the level of detail needed in the summary of procedures as it is open to a wide range of interpretations. There was some reluctance to suggest reporting by assessed risks specifically as this could compromise the client’s commercial interests; however acknowledgement was needed that the procedures performed were responsive to assessed risks.

### **5. Form of practitioner’s conclusion for limited assurance reports**

Some participants were uncomfortable with the wording in a limited assurance conclusion “based on the procedures performed, nothing has come to the practitioner’s attention to cause the practitioner to believe the subject matter is materially misstated”. There was a concern that the document and the reporting are based on a level of assumed knowledge of financial report assurance. The need for consistency between the reporting in ISAE 3000, ISRE 2400 *Engagements to Review Historical Financial Statements* and ISAE 3410 was noted.

The form of conclusion presents a fundamental and perennial problem, by not describing what it is but describing what it is not. The question (of the form of the conclusion) is wider than

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proposed ISAE 3000. An alternative report format could be in bullet point form describing what was done and importantly what was not done (refer paragraph A152).

However, if the form of conclusion is changed to reflect what it is describing and the auditor's conclusion thereon, it would likely cause confusion unless clearly differentiated from a reasonable assurance opinion. This would likely be the case in Australia as reviews are commonplace and have been so for a long time – i.e. the community is familiar with the review form of conclusion.

## **6. Application of the Standard**

The proposed ISAE 3000 appears to draw in those (accounting) practitioners who are “not competent” through the requirement to comply with Ethics and Quality Assurance. However, if the standard is used by non-accountants there is no requirement in the proposed standard to maintain professional education or for the person/firm to be subject to review by a professional body, which are both critical requirements of APES 110 *Code of Ethics for Professional Accountants*.

A very important issue with non-accountants using the proposed ISAE 3000 is the concept of professional judgement. It is fundamental to the application of this “principles-based” standard. Undoubtedly there will be significant differences in the exercise of professional judgement between an accountant and a non-accountant. The definition of practitioner should include reference to exercising professional judgement.

Another issue is that of independence, a concept which may well differ significantly between accountants and non-accountants.

## **7. Application of proposed ISAE 3000 to SMPs and SMEs**

It was generally considered that the requirements in the proposed ISAE 3000 were scalable for SMEs and SMPs.

## **8. International Framework for Assurance Engagements**

Participants generally believe that there is a fundamental need for clarity regarding reasonable and limited assurance and its applicability across a broad range of engagements, including audits and reviews of historical financial information and other assurance engagements. It was felt that the appropriate vehicle for the establishment and promulgation of these basic and fundamental concepts is the International Framework.

Participants felt that the framework should sit above all the other pronouncements of the IAASB and form the foundation from which all other pronouncements emanate. The framework, should define reasonable and limited assurance and attestation and direct engagements, not ISAE 3000. These definitions may be repeated in other pronouncements, sitting under the umbrella of the framework, however, they should be clearly enunciated in that overarching framework.

When key definitions and concepts are included in the framework, there will be an opportunity to reduce the duplication currently existing between the proposed amended framework, proposed ISAE 3000 and other standards issued by the IAASB.

A diagram could be added to the suggested, amended framework illustrating the various types of assurance engagements performed by practitioners. We include an outline for such a diagram below:

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## Types of Assurance Engagements

<p>Reasonable Assurance</p> <p>Attestation</p> <p><b>Examples:</b></p> <ul style="list-style-type: none"> <li>• Audits of Financial Statements</li> <li>• Assurance Engagements on GHG Statements (proposed ISAE 3410)</li> <li>• Assurance Engagements on Controls at a Service Organisation (ISAE 3402)</li> </ul>	<p>Limited Assurance</p> <p>Attestation</p> <p><b>Examples:</b></p> <ul style="list-style-type: none"> <li>• Reviews of Financial Statements</li> <li>• Assurance Engagements on GHG Statements (proposed ISAE 3410)</li> </ul>
<p>Reasonable Assurance</p> <p>Direct</p> <p><b>Examples:</b></p> <ul style="list-style-type: none"> <li>• Performance engagements in the public sector</li> <li>• Compliance engagements in the public sector</li> <li>• Engagements relating to the effectiveness of controls in public sector agencies</li> </ul>	<p>Limited Assurance</p> <p>Direct</p> <p><b>Examples:</b></p> <ul style="list-style-type: none"> <li>• Feedback from stakeholders indicates this type of engagement is rare, if it occurs at all.</li> </ul>

Where the framework becomes the foundation pronouncement setting out key concepts and definitions, and including descriptions of the types of pronouncements issued by the IAASB, we envisage the ISAE 3000 series of standards, sitting under the umbrella of the framework, would include standards on:

- Attestation Engagements Other than Audits or Reviews of Historical Financial Information
- Direct Engagements Other than Audits or Reviews of Historical Financial Information
- Examination of Prospective Financial Information
- Assurance Reports on Controls at a Service Organisation
- Assurance Engagements on GHG Statements
- Any other assurance engagements (future standards to be developed, as required)

The standards on attestation and direct engagements other than audits or reviews of historical financial information would become umbrella standards for other subject specific standards on assurance engagements. In practice, most of the other subject specific standards would reference back to the standard on attestation engagements, similar to ISAE 3402 and proposed ISAE 3410.

This umbrella standard approach would be akin to the approach taken by the IAASB with ISA 700, as the umbrella standard for forming an opinion and reporting on financial statements.