

The Chairman
Auditing and Assurance Standards Board
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By Email: edcomments@auasb.gov.au

29 July 2011

Dear Merran

**International Accounting Standards Board's Exposure Draft – ISAE 3000 (Revised)
Assurance Engagements Other Than Audits or Reviews of Historical Financial
Information**

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Auditing and Assurance Standards Board (AUASB) with its comments on the International Accounting Standards Board's Exposure Draft – ISAE 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (the ED).

Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies and businesses, and this submission has benefited with some initial input from our clients, Grant Thornton International (GTI), and discussions with key constituents including the AUASB's 28 June 2011 Roundtable.

The views expressed here are preliminary in nature, and a more detailed Grant Thornton global submission will be finalised by the IAASB's due date of 20 May 2011.

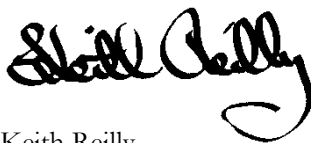
General comments

Overall, we support the issuance of the proposed ISRE and respectfully submit our comments thereon, including our responses to the Board's request for specific comments, which follow along with certain paragraph-level comments for the Board's consideration.

Our responses to the specific questions and other matters are included in Appendix I with comment on specific paragraphs in Appendix II.

If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED



Keith Reilly
National Head of Professional Standards

APPENDIX 1 - Comments on IASB Specific Questions

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?

Yes. There are a significant number of ISAE 3000 assurance engagements that professional accountants perform, and the provision of more guidance in the areas of planning, materiality, engagement risk, subject matter, criteria and direct reporting was necessary to ensure greater harmonization of practices internationally in order to improve the consistency and comparability of reporting. Subject to our comments below and in Appendix II on the need for greater clarity and guidance in certain areas, we believe that the standard is sufficiently flexible to support the broad range of engagements.

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 agree that the reasonable and limited assurance engagements are properly defined but the definition of reasonable assurance is still far too theoretical. In practice the level of assurance is usually arrived at by a discussion between the practitioner and the engaging party about the work effort required to meet the engaging party's needs. With this in mind we found the definition of limited assurance engagements clearer and less theoretical because of references to work effort (subject to suggested edits in Appendix II). It is therefore recommended that the Board reconsider the definition of reasonable assurance in terms of both engagement risk *and* work effort.

Subject to other comments we have made in our response, the supporting application material in paragraph A2 and other paragraphs was sufficient to explain the difference between the two engagements.

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

Yes

- (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. We do not believe the practitioner should be *required* to gain an understanding of internal control in a limited assurance engagement as it is not always necessary in limited assurance engagements and is better addressed (as a requirement) through subject-matter specific ISAEs if an understanding of internal control is appropriate for that specific subject-matter engagement. In addition, a practitioner, in a limited assurance engagement,

will ordinarily need a lesser depth of understanding of the entity and its internal control than for a reasonable assurance engagement.

3. Is 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 are comfortable with the terminology "Direct Engagements", but prefer the terminology "assertion-based assurance engagement" (or assertion based engagement) as set out in the IESBA Code of Ethics. This is because it is directly linked to the responsible party (and not to the practitioner) as the subject matter information is in a form of an "assertion" by the responsible party. We are unsure as to why the Board decided to choose "attest". In our view "attest" directly defined is a term relevant to both a direct engagement and an assertion based engagement and could therefore cause greater confusion if it was adopted.

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

We interpret the introduction of the terminology "a party other than the practitioner" as addressing a situation whereby the responsible party engages an expert to measure subject matter against criteria. However, we believe this terminology unnecessary. In an attestation engagement, the evaluation or measurement of the subject matter is provided by the responsible party to the practitioner, regardless of whether it is prepared by the responsible party or the responsible party's expert.

We also find the second sentence in the definition of an attestation engagement confusing in that the "other party" may present the subject matter information but the "practitioner" may also present the subject matter information. We do not agree that it is necessary, for the purpose of defining an attestation engagement, to discuss *where* the subject matter information might be presented. In our view, what is important in the definition of an attestation engagement is that the subject matter information is in the *form of an assertion* by the responsible party

We therefore recommend that the Board further clarify the definitions and have included some proposed wording in the Appendix II. In addition whilst we understand the use of the terminology "measure and evaluate" when describing the difference between the practitioners role in a direct engagement compared to an attestation engagement, we question whether some users might confuse this terminology with the practitioners role in performing assurance procedures (i.e. the practitioner measures and evaluates when performing tests of subject matter information). We therefore recommend that the Board define "measure and evaluate", to demonstrate that measure and evaluate is the process of applying criteria to subject matter in order to prepare subject matter information (as opposed to measuring and evaluating when performing tests).

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

We agree with the general approach in the proposed ISAE. However, as indicated in our comments on specific paragraphs (Appendix II), we have some concerns as to the clarity, extent and depth of some of the requirements and guidance.

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))?

Yes

(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?

Yes

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

(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

(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?

Yes, we do not believe the guidance in this area is sufficient for users to understand the nature and extent of the 'summary' that the Board has envisioned.

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?

We strongly support the proposed form of the practitioner's unmodified conclusion (that is, "nothing has come to the practitioner's attention that causes the practitioner to believe..."). We agree with the Board's discussions on this matter that the alternative expressions, which are in a more positive form, could cause users to misinterpret the limited assurance obtained by the practitioner.

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?
In principle we agree, however we included suggested amendments to paragraph 3 in Appendix II.
 - (b) Do respondents agree with proposed definition of practitioner?
The definition is unnecessarily repetitive of other guidance, definitions and explanations in the ISAE, please refer to Appendix II for suggested amendments to the definition.

Appendix 2 Other Comments

Paragraph	Comment
3	<p>The last sentence in paragraph 3 states that "If a competent practitioner other than a professional accountant in public practice chooses to represent compliance with this or other ISAEs, it is important to recognize that this ISAE includes requirements that reflect the premise in the preceding paragraph".</p> <p>This sentence is prohibitive. The Board cannot directly prohibit other competent practitioners, who are not professional accountants in public practice, from using the standard and this sentence could be misinterpreted as such..</p> <p>There are an appropriate number of 'cautionary' requirements already set out in the ISAE that demonstrate the ISAE was written for professional accountants in public practice, who are required to have the necessary background, training and experience to be able to properly apply the standard. (For example, paragraphs 11, 12, 27, 28 etc.).</p> <p>We therefore recommend that it is deleted</p>
6 Objective	<p>In paragraph 6(a), subject matter information is defined through the use of the bracketed wording "... (that is, the reported outcome of the measurement or evaluation of the underlying subject matter)", but then in paragraph 6(b), the term subject matter information is not used but instead the definition. The reason for this unusual construct is unclear.</p> <p>Firstly it is unnecessarily repetitive to define 'subject matter information' in the objective when it is clearly defined in paragraph 8 and also described in the application material. Secondly, if paragraph 6(b) means "to express a conclusion on the subject matter information" then we do not understand why the Board would avoid using this terminology as it is much clearer.</p> <p>We recommend the following alternative objective:</p> <p>"6. In conducting...</p> <p>(a) To obtain either reasonable assurance or limited assurance,</p>

Paragraph	Comment
	<p>as appropriate about whether the subject matter information is free from material misstatement; (b) to express a conclusion regarding the subject matter information through a written report that..."</p> <p>We had similar concerns with the definition of an attestation engagement and a direct engagement in paragraph 8(a)(ii) and have offered alternative wording below.</p>
7	We recommend this part of the objective is deleted. It is unnecessarily repetitive of requirement in paragraph 57.
8(a)	<p>The first sentence in the definition of an Assurance engagement states "An engagement in which a practitioner aims to obtain ...designed to enhance the degree of confidence of the intended users <i>other than the responsible party</i> about..."</p> <p>We believe the wording "other than the responsible party" is far too technical and cumbersome for the purpose of this document. It is quite conceivable that the responsible party would also be an intended user for certain assurance engagements. That is, the responsible party would require the services of the practitioner to enhance their confidence in the subject matter information.</p> <p>We recommend that this wording is deleted to avoid confusion.</p>
8(a)(ii)	<p>For the reasons described above, we propose the following alternative wording for paragraph 8(a)(ii):</p> <p>Attestation engagement – An assurance engagement in which the evaluation or measurement of the subject matter against the criteria is performed by the responsible party (or the responsible party's expert). The subject matter information is, or is presented in the form of an assertion by the responsible party that is made available to the intended users.</p> <p>Direct engagement – An assurance engagement in which the practitioner either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement, and presents the resulting subject matter information as part of or accompanying, the assurance report.</p>
8(b)	Paragraph 8(b) states that assurance skills and techniques are distinct from expertise in the underlying subject matter or its measurement or evaluation.

Paragraph	Comment
	<p>It is conceivable that a practitioner possess both assurance skills <i>and</i> expertise in the underlying subject matter or its measurement. Users of the ISAE may misinterpret this guidance as prohibiting a practitioner with such multiple skills from carrying out an attestation or direct reporting assurance engagement.</p> <p>We therefore recommend the following alternative definition:</p> <p>Assurance skills and techniques – Planning, evidence gathering, evidence evaluation and reporting skills.</p>
8(m)	<p>We recommend that this definition is deleted as it is unnecessary to define the noun of "measure" and "evaluate" in an assurance standard.</p>
8(q)	<p>We recommend the deletion of the sentences, set out below, because they are repeated, explained or defined elsewhere in the ISAE on several occasions and are therefore unnecessarily repetitive.</p> <p>Practitioner—The individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm) by applying assurance skills and techniques to obtain reasonable assurance or limited assurance, as appropriate, about whether the subject matter information is free from material misstatement. In a direct engagement, the practitioner both measures or evaluates the underlying subject matter against the criteria and applies assurance skills and techniques to obtain reasonable assurance or limited assurance, as appropriate, about whether the outcome of that measurement or evaluation is free from material misstatement. 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.</p>
8(x)	<p>We recommend deleting the word "underlying" from the term "underlying subject matter", it is an unnecessary extension of the key term which is Subject Matter.</p>
19	<p>For clarification purposes, we recommend the following amendment to paragraph 19:</p> <p>"If, <u>during the engagement</u>, the engagement partner obtains information that would have..."</p>

Paragraph	Comment
20(a)	<p>We determined that it is difficult to achieve the requirement in 20(a) without carrying out the recommended actions in the application material A34 and A36. A34-A36 are, in our view, 'hidden' requirements which is not appropriate. We assume that the intention of the Board was to ensure that a practitioner has a clear understanding of their role and responsibility in the engagement, and an understanding of the roles and responsibilities of other parties.</p> <p>We therefore recommend that the requirement is revised with the following wording:</p> <p>(a) An understanding of the roles and responsibilities of the appropriate parties.</p>
20(b)(iv)	<p>We do not agree that the 'form of the practitioner's conclusion, to be contained in a written report', is a necessary precondition for engagement acceptance. This requirement would be difficult to evidence without including a draft assurance report in the engagement letter, which is unnecessary.</p>
20(b)(v)	<p>In practice, a key pre-condition to accepting an engagement is to obtain an understanding of the scope of the work to be completed.</p> <p>This pre-condition is arguably implied by 20(v) whereby the practitioner is required to determine if there is a rational purpose for the engagement (reference to limited assurance in particular). However, we do not think this is clear enough and would recommend that the Board include 'type of assurance engagement' (or 'scope of work') as part of the list in paragraph 20(b) explicitly.</p>
25	<p>We do not support the inclusion of the second sentence of paragraph 26 as a requirement; "If such a change is made, the practitioner shall not disregard evidence that was obtained prior to the change".</p> <p>It is a matter of professional judgement whether evidence obtained prior to change of engagement is relevant to the new engagement. By imposing this requirement, all practitioners will be required to retain evidence that may be of no relevance to the new engagement. We believe this is an unnecessary burden on practitioners. We recommend that the sentence is moved to the application material and amended as follows:</p> <p>"If the terms of engagement are amended, the practitioner may wish to retain evidence that was obtained prior to the amendment"</p>

Paragraph	Comment
26	<p>We do not support the inclusion of paragraph 26 as a requirement. It is conceivable that a practitioner would consider whether users might misunderstand the wording of the assurance report regardless of whether the content of the assurance report is prescribed by law or regulation. If the Board believes it is useful guidance, then it should be included as application material with references to law and regulation removed.</p>
28(a)(ii)	<p>Paragraph 28 requires the engagement partner to be satisfied that the engagement team have the capabilities to perform the engagement in accordance with the relevant standards and enable an assurance report to be issued. We do not understand why the additional requirement ("assurance report") is necessary when it is already achieved through carrying out the first requirement in 28(a)(i) (i.e. a test of the engagement team's competency to carry out the engagement in accordance with the ISAE) because the ISAE includes requirements regarding the content of the assurance report. Paragraph 28(a)(ii) is therefore unnecessarily repetitive.</p> <p>We question if this was the intention of the Board. It would be more appropriate for the engagement partner to be satisfied that the engagement team have the skills and competency to issue an appropriate <i>conclusion</i>. Delivering an appropriate conclusion would require skills in applying the requirements of the ISAE i.e. the methodology.</p> <p>We therefore recommend that paragraph 28(a)(ii) is either deleted or edited as follows:</p> <p>(ii) Enable an conclusion that is appropriate in the circumstances.</p>
43	<p>We would appreciate more guidance regarding the accumulation of uncorrected misstatements identified during the engagement. Paragraph A99 only explains why the practitioner is required to accumulate uncorrected misstatements but not how. We recommend that the Board draws on guidance in ISA 450.</p>
44	<p>We found the placement of the bracketed reference in the first sentence of paragraph 44 ("including whether it is a reasonable assurance or limited assurance engagement") misleading because the link between procedures, evidence and assurance is a technically complicated matter and cannot be summarized in this manner.</p> <p>Evidence is obtained from <i>procedures</i> performed during the course of the engagement. The nature, timing and extent of the</p>

Paragraph	Comment
	<p><i>procedures</i> are driven by whether the practitioner needs to obtain reasonable assurance or limited assurance (among other matters set out in paragraph A94). Based on the evidence obtained the practitioner may wish to carry out additional procedures and the nature, timing and extent of those <i>additional</i> procedures will also vary depending on the nature of assurance the practitioner needs to obtain. The evidence obtained will allow the practitioner to conclude if they have achieved the level of assurance required.</p> <p>We believe that this link between procedures, evidence and assurance is more clearly explained in the paragraphs A94 to A105 and therefore recommend that the bracketed reference is deleted.</p>
50	<p>We were confused by the reference "when written representations relate to matters that are <i>material</i>...". If it is the Board's intention that the practitioner is required to obtain written representations on non-material matters could this be clarified with specific examples.</p>
56	<p>Similar to our comment on paragraph 6, we are unsure why the Board has not chosen to use the terminology subject matter information in the first sentence of paragraph 56. It is unnecessarily repetitive to define 'subject matter information' in the requirement when it is clearly defined in paragraph 8 and also described in the application material.</p>
59	<p>The terminology 'emphasis of matter' is used in this requirement but is not defined in paragraph 8. Some assurance practitioners may not be familiar with the auditing standards, ISA 706 in particular, so we recommend that it is defined.</p>
60(k)	<p>We would appreciate more guidance on what constitutes "informative summary" in a limited assurance engagement. Paragraph A152 simply states that the summary of work would be more detailed and might include procedures that the practitioner did not carry out. This is not particularly helpful. We therefore suggest that the Board includes an example report to assist users of the standard in determining what would be appropriate in the particular circumstances of their engagement.</p>
60(l)(i)	<p>We did not understand this requirement and the guidance in A158 confused us further. We recommend that this requirement is clarified.</p>
68	<p>We do not support the requirement to consider whether any matter that has come to the attention of the practitioner should</p>

Paragraph	Comment
	<p>be communicated. This is an unnecessary burden on the practitioner as the practitioner would have to demonstrate they have considered all matters that have arisen and if they do or do not need to be further communicated, to meet the requirement.</p> <p>We recommend that the requirement is rewritten so that the practitioner is required to communicate all <i>significant</i> matters to the responsible party. Alternatively the Board could draw on guidance in ISA 260.16.</p>
A9	<p>We were confused by the use of the term underlying subject matter in the fifth sentence of paragraph A9: For example, one measurer or evaluator might select the number of customer complaints resolved to the acknowledge satisfaction of the customer for the underlying subject matter of customer satisfaction. In practice, customer satisfaction results are the subject matter information. This SMI is attained by measuring or evaluating customer complaints, the subject matter. If this is not the case, we recommend the Board clarifies this example further.</p>
A13	<p>We were confused by the second sentence in the first bullet of paragraph A13 that implies that control risk is less important when testing effectiveness of controls than preparing information about an entity's performance. We would have thought the opposite was the case. We recommend that this is clarified.</p> <p>In addition, the second bullet implies that only tests of controls are needed in a limited assurance engagement, which is not the case. We recommend that this sentence is clarified.</p>
A21 and A22	<p>We found these paragraphs confusing and propose that the following two paragraphs replace A21 and A22.</p> <p>A21. This ISAE includes requirements that apply to all assurance engagements (other than audits or reviews of historical financial information), including assurance engagements in which a subject matter-specific ISAE is in effect.</p> <p>A22. The ISAs and ISREs have been written specifically for audits and reviews of historical financial information respectively. They may however provide guidance in relation to the assurance process generally for practitioners undertaking an assurance engagement in accordance with this ISAE.</p>

Paragraph	Comment
A28-A32	<p>We recommend that this guidance is expanded to include ethical considerations specifically related to direct engagements. We suggest that the following is included:</p> <p>In a direct reporting assurance engagement, the members of the assurance team and the firm shall be independent of the assurance client (the party responsible for the subject matter). An evaluation shall also be made of any threats the firm has reason to believe are created by network firm interests and relationships.</p>
A17	<p>We propose the following addition to the second sentence in paragraph A17 to clarify roles and responsibilities further:</p> <p>"...Regardless of the involvement of others however, and unlike an agreed-upon procedures engagement (which involves reporting findings based upon procedures <u>agreed with the engaging party</u>, rather than a conclusion):..."</p>
A92	<p>We recommend the following edit to paragraph A93:</p> <p>"The practitioner ordinarily...The practitioner also ordinarily has <u>needs</u> a lesser depth of understanding for a limited assurance engagement...internal control over the preparation of the subject matter information, this is often not the case <u>necessary</u>."</p>
A126	<p>We recommend that the guidance in the second bullet point of paragraph A126 is expanded by the inclusion of an example where this particular situation might arise.</p>
A128	<p>With regard to the terminology at the end of paragraph A128 "...or take other action as appropriate in the circumstances", we recommend that the guidance should be expanded further to explain what those circumstances might be. This guidance can be drawn from ISA 560.</p>
A133	<p>The last bullet of paragraph A133 refers to analytical procedures performed at the end of the engagement. Although this is an example, it may be interpreted by some users that final analytical procedures are required on all ISAE 3000 assurance engagements, which is not the case. We therefore recommend the following alternative wording:</p> <p>A133... If analytical procedures were performed towards the end of the engagement, they may indicate a previously unrecognized risk of material misstatement. that such procedures would be performed on all engagements.</p>

Paragraph	Comment
A138	We found the use of the term "symbol" in this paragraph confusing and recommend that it is explained further.
A175	This application material appears to be a conditional requirement; i.e. if a circumstance exists (necessary to amend existing documentation), then an action should be taken (the documentation includes...). We recommend that the Board either reword the guidance as an example of what might be included in the documentation when the circumstance exists, or include it as a conditional requirement to paragraph 69 and 70.
Appendix	<p>We find the diagram in the appendix confusing and unhelpful. It does not adequately demonstrate the various roles and responsibilities of the practitioner and the nature of assurance engagements for a number of reasons. In addition, the written guidance supporting the diagram appears to be unproportionally long. For example,</p> <ul style="list-style-type: none"> - the responsible party is responsible for the subject matter and the subject matter information but the diagram implies the responsible party is only responsible for the subject matter. - the title "assure" is not defined, and is not connected to the intended users or the assurance report. - the practitioner is linked to the subject matter information, but in a direct engagement would also linked to the criteria, measurer, subject matter. <p>We therefore recommend that the diagram is redrawn to more appropriately reflect the roles and responsibilities or deleted.</p>