

ISAE 3000¹—Issues and IAASB Task Force Proposals**A. Nature and Extent of Requirements in ISAE 3000**

- A1. ISAE 3000 is currently 20 pages long; it has 57 paragraphs, 28 of which include “black letter” requirements. As discussed briefly at the March 2009 meeting, ISAE 3000 could be:
- (a) Updated, but kept at a similar length to the extant standard, with requirements set at a similar level;
 - (b) Replaced by a series of topic-specific ISAEs that adapt ISA requirements and application material; or
 - (c) Somewhere in between, e.g., ISAE 3000 could be retained and a small number of ISAEs added on core topics as well; or retained with expanded requirements in particular areas.
- A2. The Task Force realizes that the process to determine this matter may be iterative, with the IAASB wanting to see different versions of ISAE 3000² before making a final decision, but ideally, the IAASB would have a reasonably firm view on the general direction it wants to take as early as possible in the life of the project. So for this meeting, the Task Force would like to assist the IAASB in starting its deliberations by:
- (a) Framing the question in terms of the public interest (paragraph A3);
 - (b) Offering a short discussion of key issues impacting the IAASB’s decision (paragraphs A4-A21); and
 - (c) Providing an insight into what the two most extreme positions, as outlined in paragraphs A1(a) and A1(b) above, might look like (paragraphs A22-A24).

The Public Interest

- A3. The IAASB needs to make a cost/benefit judgment regarding the impact on the public interest of the nature and extent of requirements to be included in ISAE 3000. This will involve the IAASB considering two opposing realities, which can be expressed in general terms as follows:
- (a) The more detailed that ISAE 3000 becomes, the higher the risk that it will be “over-engineered,” which would be detrimental for all assurance engagements because, for example, it would decrease flexibility and add to compliance costs, and may inhibit innovation and in fact reduce assurance quality. It may also lead to professional accountants being priced out of certain assurance markets because of the added

¹ International Standard on Assurance Engagements (ISAE) 3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information.”

² For the rest of this paper, unless the contrary is indicated, please read ISAE 3000 to mean revised ISAE 3000, a new separate series of topic specific ISAEs that replace ISAE 3000, or something in between, according to what the IAASB finally decides.

compliance costs, particularly at the smaller end of the market, which may not be in the public interest because it means those markets would be unable to benefit from the extensive assurance expertise and the quality-oriented approach that professional accountants add to the assurance market. In addition, as ISAE 3000 applies to a broad range of engagements and subject matters, there may be a limit to the extent to which the ISAE can provide more detailed requirements whilst remaining appropriate for all assurance engagements (as discussed more fully below).

- (b) The less detailed that ISAE 3000 becomes, the higher the risk that it will not be sufficiently robust to drive consistent, high-quality behavior by practitioners. The primary way the IAASB influences behavior of practitioners is by embedding expectations of high-quality behavior into the requirements of the standards. The standards can be pitched at the bare minimum level of acceptable behavior, which will not drive consistent high-quality practice, or they can be pitched at a more detailed level that drives towards “best practice.” Also, the more expectations are codified in the standards, the more likely it is that different practitioners in similar circumstances will come to a similar conclusion. The resulting consistency is in the public interest.
- A4. Considering the above positions will assist the IAASB in determining the nature and extent of requirements to be included in ISAE 3000, recognizing of course that neither position is entirely correct and the other entirely wrong, and that there are further subtleties and variations that could be reflected in the way each is described. As noted in the Explanatory Memorandum to proposed ISAE 3402³ in the context of controls at a service organization: “the IAASB is of the view that because the engagement seeks to provide reasonable assurance, and therefore is comparable to a financial statement audit, it would be desirable for the proposed ISAE, taken with ISAE 3000, to cover similar matters and at a similar level of detail to the ISAs to the extent practicable and relevant.” The question then becomes, how does the IAASB determine the extent that is practicable and relevant?

Factors to Consider

- A5. Following is a high-level description of interconnected factors that are likely to affect the public interests with respect to ISAE 3000. Discussion of these factors at the June 2009 meeting may help the IAASB determine the appropriate nature and extent of requirements. Also, if the IAASB decides that summarized requirements, relative to the requirements in ISAs, are appropriate, that discussion will assist the Task Force in developing rules of thumb for summarizing requirements when drafting ISAE 3000.

Cost/Benefit

- A6. The costs and benefits are outlined in broad terms in paragraph A3 above. The IAASB should consider who bears the costs and who reaps the benefits, what are the risks associated with the costs and benefits, and who bears those risks.

³ ISAE 3402, “Assurance Reports on Controls at a Service Organization.”

Differential Requirements

- A7. To what extent should the requirements of ISAE 3000 be “scalable?” Should the level of detail be determined on a “think small first” basis and, if so, would differential requirements be required for larger or more complex engagements, those with a higher degree of public interest, or particular subject matter?
- A8. It may be argued that having a large number of requirements will disproportionately disadvantage smaller practitioners, smaller clients, or smaller engagements. For example, in their response to proposed ISAE 3402, the ACCA “expressed concern that the IAASB would create a hugely detailed ISAE 3000 that would escalate the cost of assurance engagements and price professional accountants out of the small assurance market.”
- A9. The clarified ISAs contain “considerations specific to smaller entities” where appropriate, but these do not lessen the requirements, and the IAASB continues to be firmly of the view that an audit is an audit. Should this view also apply to ISAE 3000, i.e., is it true to say that an assurance engagement is an assurance engagement?
- A10. On the other hand, while the ISAs do not contain differential requirements based on size, they do contain differential requirements based on the degree of public interest in some entities, in particular listed entities (e.g., for engagement quality reviews and some communication responsibilities). Further, might it be argued that the degree of public interest is likely to be higher in a financial statement audit than it is in many other assurance engagements, and therefore adaptation of the detailed requirements formulated for financial statement audits are simply not warranted for the majority of other assurance engagements? Thus, there may be questions of scalability not only with respect to size, but also to the degree of public interest, which itself may differ according to the subject matter itself.

Subject Matter-Specific ISAEs

- A11. It may be relevant to consider how many subject matter-specific ISAEs the IAASB expects to develop in the future. If there will be many, it may be argued that ISAE 3000 should include fewer generic requirements because it is better to have more tailored, subject matter-specific requirements in the subject matter-specific ISAEs.
- A12. Alternatively, it could be argued that if there will be many subject matter-specific ISAEs developed over a period of time, inconsistencies in the way they treat even basic requirements will inevitably creep in; the best way to avoid that may be to keep as many requirements as possible in the generic form in ISAE 3000 and only emphasize the major points of difference in the subject matter-specific ISAEs.

The Need for Flexibility

- A13. Will too many requirements in ISAE 3000 impose too high a hurdle for new innovative assurance services and prevent them from ever getting off the ground, thereby thwarting evolution in new areas? If so, is the issue compounded by the fact that ISAE 3000 will apply to assurance engagements on subject matters that we are unaware of (albeit that we can anticipate and classify the *types* of subject matter – see Agenda Paper 5-C)?

Complexity

- A14. Is the relative complexity of financial statement audits versus other assurance engagements a distinguishing factor? Do financial statement audits warrant more intricate requirements as a consequence of their complexity? Should requirements that would only be applicable in complex environments be omitted from ISAE 3000?

Expertise

- A15. If ISAE 3000 includes some requirements and guidance that are summarized from the ISAs, does this implicitly assume that those applying it are relatively *au fait* with the content of the ISAs from which the summaries are extracted? What assumptions can be made about the knowledge and experience with assurance concepts in general, and with ISAs in particular, of practitioners applying ISAE 3000? (See Section B for a discussion of this.)

The Nature of the Subject Matter Information

- A16. Some requirements in the ISAs are very financial statement-specific, e.g., those relating to fair values, and can therefore be completely excluded from any consideration that may be given to adapting ISA requirements in ISAE 3000.
- A17. Some other requirements may apply to certain categories of subject matter information but not all. Agenda Item 5-C includes a categorization of subject matter information, and tests whether or not the requirements of three ISAs could be adapted to each should the IAASB choose to do so.

Virtually All Assurance Engagements

- A18. It might be argued that those ISA requirements that, when adapted, are applicable to all or virtually all assurance engagements should be included in ISAE 3000. But what does it mean for a requirement to be applicable to all or virtually all assurance engagements?
- A19. It is understood that the requirements of the ISAs do not apply in financial statement audits when the circumstances they envisage are not relevant, e.g., the sampling ISA does not apply if the auditor is not doing sampling. Could this also work for ISAE 3000?
- A20. What is the role of conditional requirements in this context? If a requirement does not apply to all or virtually all engagements, but does apply to all or virtually all of those engagements that have a particular characteristic, should that requirement be included in ISAE 3000 to be applied when the characteristic is present? The conditional requirement could clearly specify the characteristic envisaged that would trigger its application, or it could be left up to judgment with the requirement being prefaced by, e.g., “when appropriate in the circumstances of the engagement, the practitioner shall ...”
- A21. A common characteristic that could be used to trigger a conditional requirement is the nature of the subject matter information, for example, many ISA requirements may apply to non-financial performance data, but not to the effectiveness of a system of internal control (see Agenda Item 5-C). Other very broad characteristics that could be used include whether:
- The engagement is at the reasonable or limited assurance level.

- The engagement is assertion-based or direct reporting.
- The subject matter information timeframe is historical, real-time or future oriented.

Examples

- A22. Agenda Item 5-B contains the genesis of what the requirements in an updated ISAE 3000 might contain if the IAASB decided to keep the standards at a similar length to the extant standard, with requirements set at a similar level.
- A23. Agenda Item 5-C contains the requirements of three ISAs adapted by staff for broader application, and a staff analysis of whether they would be applicable to particular subject matter information categories. This shows the likely level of detail of the requirements section of topic specific ISAEs if the IAASB decided to replaced ISAE 3000 with a series of topic-specific ISAEs that adapt ISA requirements and application material.
- A24. As acknowledged in paragraph A1 above, there is a range of option that are somewhere in between the two examples in Agenda Items 5-B and 5-C, e.g., ISAE 3000 could be retained and a small number of ISAEs added on core topics as well; or retained with expanded requirements in particular areas.

B. Assurance Professionals

- B1. ISAs are written for application by auditors. While the exact requirements to be an auditor will vary from jurisdiction to jurisdiction, it can reasonably be assumed that an auditor is a professional accountant, i.e., a member of an IFAC member body, who is in public practice and who has expertise in auditing.
- B2. This assumption is far less likely to hold for people (engagement partners or their equivalent) providing broader assurance services, so it is worth exploring each component of the assumption in deciding for whom ISAE 3000 should be written.

Professional Accountant

- B3. Traditionally, the two important connotations of being a professional accountant with respect to financial statement auditing were that the person:
- (a) Has financial reporting expertise, and can therefore be considered an expert in the subject matter of a financial statement audit. The structure of the profession has changed over the years such that not all members of IFAC member bodies are “accountants.” A number of member bodies now allow partners of accounting firms who are not accountants to become a member. The Task Force considers the fact that a person applying ISAE 3000 may not have accounting expertise does not have any particular implications at this stage because engagements under ISAE 3000 can relate to almost any subject matter. It is subject matter expertise that is important, not accounting expertise. This matter will be addressed when revising the sections of ISAE 3000 that deal with engagement acceptance (whether the person applying ISAE 3000 has sufficient subject matter expertise) and the use of experts. Certain subject matter-specific ISAEs will also likely cover this matter, including for some subject matters perhaps, a requirement for accounting expertise.

- (b) Is subject to a range of measures, related to competence, quality control, and ethics, taken by the accounting profession to ensure quality. The Task Force considers it important to protecting the integrity of ISAE 3000, and therefore in the public interest, that ISAE 3000 is applied only by people who are subject to such measures. The Task Force recognizes, however, that it is not necessarily in the public interest to restrict application of ISAE 3000 to members of member bodies only. For example, a public sector auditor may not be a member of an IFAC member body, but may have equally good quality measures in place, such as an organization-wide quality control system that compiles with ISQC 1.⁴ The Task Force has, therefore, come to the tentative conclusion that:
- (i) The primary audience for ISAE 3000 is professional accountants and the standard should continue to be written in that context;
 - (ii) The measures taken by the accounting profession to ensure quality should be cited in ISAE 3000 as a benchmark, and if others can demonstrate that they have measures that are “at least as demanding” as that benchmark, then they should be permitted to claim compliance with ISAE 3000 also. This is similar to the approach IAASB took to the ethical requirements and ISQC 1 in the ISAs.

Public Practice

- B4. The International Framework for Assurance Engagements (Assurance Framework) is written in the context of a three party relationship, whereby the person applying ISAE 3000 is a public practitioner who is independent of both the responsible party and the intended user. It is in these situations that the demand for standards in the public interest arises, rather than with respect to, for example, internal auditors. The Task Force sees no reason to challenge this.

Expertise in Auditing

- B5. As noted in International Education Standards (IES) 8 “Competence Requirements for Audit Professionals:” “although some professional accountants deliver a wide range of accounting and business-related services, others will choose to specialize in one or more areas. No one professional accountant can master all areas of accountancy. Specialization is necessary to ensure services can be provided by professional accountants having sufficient depth of knowledge and expertise. One area of specialization is in audit of historical financial information. Competence in this area requires a higher level of education and training in audit and related areas than is required of other professional accountants.”⁵
- B6. The Task Force is tentatively of the view that, while expertise in financial statement auditing is not necessary, expertise in assurance is necessary for a person to fully understand ISAE 3000, and be in a position to apply its requirements.

⁴ International Standard on Quality Control (ISQC) 1, “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements.”

⁵ IES 8, paragraphs 18 and 19.

B7. The Task Force has not considered in any detail yet the criteria that might be needed to identify what constitutes “expertise in assurance,” but it currently envisages that such a term can be meaningfully used in the context of ISAE 3000 without extensive explanation. It should be noted that an expert in financial statement auditing would be considered to be an expert in assurance.

Summary

B8. The following table summarizes the Task Force’s tentative position at this time:

		Specialized assurance skills and training	No specialized assurance skills and training
Member of an IFAC member body in public practice	An “accountant” by training	<i>The primary audience for whom ISAE 3000 should be written</i>	<i>Should not apply ISAE 3000</i>
	Not an “accountant”	<i>Can apply ISAE 3000 if the firm implements ISQC 1</i>	<i>Should not apply ISAE 3000</i>
Not a member of an IFAC member body	Working in an accounting firm	<i>Can apply ISAE 3000 if the firm implements ISQC 1</i>	<i>Should not apply ISAE 3000</i>
	Working in another environment that has measures related to competence, quality control, and ethics that are at least as demanding as the accounting profession’s	<i>Can apply ISAE 3000</i>	<i>Should not apply ISAE 3000</i>
	Does not have measures that are at least as demanding as the accounting profession’s	<i>Should not apply ISAE 3000</i>	<i>Should not apply ISAE 3000</i>

B9. To reflect the emphasis on specialized assurance skills and training, the Task Force is considering replacing the term “practitioner” used in extant ISAE 3000 with the term “assurance professional.”

B10. Illustrative wording to give effect in ISAE 3000 to the tentative positions adopted above is included in Appendix 1. The Task Force has not closely reviewed this wording as yet, so while any suggestions about it would be welcome, the Task Force intends to focus discussion during the meeting more on the principles described above rather than the illustrative wording.

B11. The ISAE 3000 Task Force has benefitted from consideration of this issue undertaken by the Emissions Task Force. The position taken here, however, is slightly different from that in the

draft of ISAE 3410 at Agenda Item 7.⁶ This is because Agenda Item 7 was finalized prior to the ISAE 3000 Task Force completing its deliberations. The difference is not a point of dispute between the two Task Forces.

C. Assertion-Based and Direct Reporting Engagements

C1. The Assurance Framework describes the difference between assertion-based and direct reporting engagements as follows:⁷

In some assurance engagements, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users. These engagements are called “assertion-based engagements.” In other assurance engagements, 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 that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report. These engagements are called “direct reporting engagements.”

C2. Different views have been taken when interpreting these paragraphs. For example, consider the following scenarios, which could represent successive stages in the evolution of a new assurance service. Are all these scenarios acceptable as assurance engagements (particularly with respect to independence); and, which are direct reporting engagements and which are assertion-based engagements?

	Who measures		Rep letter		Present'n		Explicit assert'n	
	Ass. Pro.	Ent	N	Y	Ass. Pro.	Ent	N	Y
(a) The assurance professional measures the subject matter and prepares the subject matter information. The entity does not provide a representation letter. The subject matter information is presented as an attachment to the assurance professional's report in a cover that has the audit firm's logo on it.	✓		✓		✓		✓	
(b) As for (a) except the entity accepts responsibility for the subject matter information in a representation letter available only to the assurance professional.	✓			✓	✓		✓	

⁶ In particular, the reference to professional accountant in paragraph 12(b) of draft ISAE 3410, “Assurance on a Greenhouse Gas Statement.”

⁷ Assurance Framework, paragraph 10.

(c) As for (b) except the subject matter information is presented in a cover that has the entity’s logo on it, and the assurance professional’s report is attached to the description (rather than the other way around).	✓			✓		✓	✓	
(d) As for (c) except the subject matter information is accompanied by an explicit assertion that the subject matter is fairly presented in accordance with the criteria.	✓			✓		✓		✓
(e) The entity measures the subject matter and prepares the subject matter information. The subject matter information is presented in a cover that has the audit entity’s logo on it. The assurance professional’s report is attached to the description.		✓		✓		✓	✓	
(f) As for (e) except the subject matter information is accompanied by an explicit assertion that the subject matter is fairly presented in accordance with the criteria.		✓		✓		✓		✓

C3. A brief discussion of the variables presented in the above scenarios follows:

- (a) *Who measures the subject matter and prepares the subject matter information:* In some cases, the assurance professional may have a better understanding of the relevant measurement and presentation methodologies than the entity. Having the assurance professional serve as the “independent measurer” can be of benefit in ensuring the quality of information provided, particularly early in the evolution of a new type of reporting, where only a small number of people may have the technical expertise necessary to prepare that information. While involvement with measurement of the subject matter and preparation of the subject matter information undoubtedly increases the self review threat, it may nonetheless be in the public interest. For example, the IFAC *Code of Ethics for Professional Accountants* (IFAC Code) acknowledges that having auditors providing technical assistance and advice on accounting principles is “an appropriate means to promote the fair presentation of the financial statements.”⁸ The IFAC Code even allows the auditor to provide accounting and bookkeeping services for non-listed audit clients.⁹
- (b) *Whether the entity accepts responsibility for the subject matter information in a representation letter available only to the assurance professional:* ISAE 3000 does not require a representation letter in all cases. It contains a black-letter requirement stating (emphasis added) “The practitioner should obtain representations from the responsible party, as appropriate,” and in the explanatory material states: “Having no written representation may result in a qualified conclusion or a disclaimer of conclusion on the

⁸ IFAC Code, paragraph 290.170.

⁹ IFAC Code, paragraph 290.168.

basis of a limitation on the scope of the engagement. The practitioner may also include a restriction on the use of the assurance report.” The assurance professional may not be in a position to obtain representations from the responsible party when the party engaging the assurance professional is different from the responsible party. In such cases, it is possible that the assurance professional has little or no contact with the responsible party. While obtaining representations is often seen as an important evidence gathering process, if that representation is not available to intended users, it is not likely to be a factor that differentiates a direct reporting engagement from an assertion-based engagement.

- (c) *Whether the entity communicates to intended users its acceptance of responsibility for the subject matter information.* This may be done either:
- (i) By presenting the subject matter information to users as its own, e.g., by presenting it in a cover that has the entity’s logo on it; or
 - (ii) By including an explicit assertion by the responsible party that the subject matter is fairly presented in accordance with the criteria.

A large part of the confusion about the difference between direct reporting and assertion-based engagements seems to relate to use of the word “assertion.” Some interpret the word assertion in the term “assertion-based engagement” to mean an explicit assertion by the entity that the subject matter information is fairly presented in accordance with the criteria. Others interpret “assertion” to also cover the implicit assertions that are embodied in the subject matter information (like completeness, accuracy, etc). If one accepts the latter view, does it leads to the conclusion that where the entity accepts responsibility for the subject matter information by presenting that information to intended users as its own, then it is asserting completeness, accuracy etc to the intended users, making the engagement assertion-based?

Preliminary Draft Text for ISAE 3000

Introduction Section of ISAE 3000

1. This ISAE is for application by assurance professionals.

Definition Section of ISAE 3000

2. Assurance professional means a person in public practice who has specialist skills, knowledge and experience in assurance concepts and processes developed through extensive training and practical application, and is: (Ref: Para. A1)
 - (a) A professional accountant, i.e., a member of an IFAC member body; or
 - (b) A member of an organization that imposes requirements in relation to competency, quality assurance, and ethics that are at least as demanding as those required by IFAC member bodies [*or the accounting profession in the relevant jurisdiction*]. (Ref: Para. A2)

Application Material Section of ISAE 3000

- A1. Although some professional accountants deliver a wide range of accounting and business-related services, others will choose to specialize in one or more areas. No one professional accountant can master all areas of accountancy. Specialization is necessary to ensure services can be provided by professional accountants having sufficient depth of knowledge and expertise.¹⁰ One area of specialization is assurance, which includes, but is broader than, financial statement auditing. Competence in this area requires specialist skills, knowledge and experience in assurance concepts and processes developed through extensive training and practical application.
- A2. This ISAE has been written in the context of a range of measures taken to ensure the quality of assurance engagements undertaken by professional accountants in public practice, such as those taken by IFAC member bodies in accordance with IFAC's Member Body Compliance Program and Statements of Membership Obligations. Such measures include:
 - (a) Competency requirements, such as education and experience benchmarks for entry to membership, and ongoing continuing professional development/life-long learning requirements.
 - (b) Quality assurance policies and procedures implemented across the firm. ISQC 1 applies to all firms of professional accountants who undertake assurance engagements.¹¹ Compliance with ISQC 1 requires, among other things, that the firm establish and maintain a system of quality control that includes policies and procedures

¹⁰ International Education Standard (IES) 8, "Competence Requirements for Audit Professionals."

¹¹ International Standard on Quality Control (ISQC) 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements."

addressing each of the following elements, and that it documents its policies and procedures and communicates them to the firm's personnel:¹²

- Leadership responsibilities for quality within the firm.
 - Relevant ethical requirements.
 - Acceptance and continuance of client relationships and specific engagements.
 - Human resources.
 - Engagement performance.
 - Monitoring.
- (c) A comprehensive Code of Ethics founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

¹² ISQC 1, paragraphs 16 and 17.