



July 15, 2011

Via website posting: <http://www.iaasb.org/>

Re: Exposure Draft Comment: **ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information**

Dear Sir/Madam:

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to comment on the Discussion Paper: **ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information**

Question 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?

Comments

We note that the proposed ISAE can be applied effectively to a broad range of assurance engagements, including assurance on statements about the effectiveness of internal control, performance audits, and possible future engagements addressing integrated reporting or corporate social responsibility reporting. We note that, consistent with extant ISAE 3000, the proposed standard covers both reasonable and limited assurance engagements, and provides guidance designed to help intended users to better understand these two levels of assurance. We also observe substantial alignment with the conceptual basis of the proposed ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*. Also, proposed ISAE 3000 recognizes that an assurance engagement may be either an attestation engagement or a direct engagement. Hence, subject to our comments made elsewhere in this response and, more particularly, to our reservations with respect to the differentiation between attestation and direct engagements, as well as the proposed form of practitioner's conclusion in a limited assurance engagement, we believe that the proposed principles-based standard will enable consistent high quality engagements, while being sufficiently flexible to apply to the broad range of relevant engagements.

Question 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?

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

(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?

Comments

- (a) We note that the proposed ISAE 3000 introduces additional guidance designed to help readers better understand the differences between reasonable and limited assurance, and this is in contrast to the use of “positive form” and “negative form” terminology in extant ISAE 3000, which feedback had indicated as being confusing and underplaying the value of the conclusion in a limited assurance engagement. However, it is our considered opinion that the terminology in the extant ISAE 3000 more faithfully conveys the level of assurance provided by the practitioner, and that the proposed terminology is likely to misstate the level of assurance provided by the practitioner in case of “limited assurance engagements”. This is because we believe that the term “limited assurance” has some positive connotation and subjective judgment associated with it. We have similar concerns for the proposed ISRE 2400 (Revised), *Engagements to Review Historical Financial Statement*.
- (b) We note that the proposals do not differentiate on the basis of the level of assurance for the purpose of materiality considerations and judging the suitability of criteria and the appropriateness of an underlying subject matter. We support this position, and believe that the standards should be the same for both types of assurance engagements. We also endorse the key principle articulated in the proposals that, as a matter of public interest, in undertaking any limited assurance engagement whenever matters come to the practitioner’s attention that cause the practitioner to believe that the subject matter information may be materially misstated, the practitioner must pursue those matters, and it will not be appropriate for a practitioner to report without having performed additional procedures.
- (c) We believe that more guidance is warranted for enabling the practitioner to decide when it is necessary in limited assurance engagements to obtain an understanding of internal control over the preparation of the subject matter information (Paragraphs 37, A92-A93). The limited assurance engagement does not imply lower quality and, accordingly, we believe that the proposed ISAE 3000 should 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.

Question 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‡?*
- (b) *Does proposed ISAE 3000 properly define, and explain the difference between, direct engagements and attestation engagements?*
- (c) *Are the objectives, requirements and other material in the proposed ISAE 3000 appropriate to both direct engagements and attestation engagements? In particular:*
- (i) *In a direct engagement when the practitioner’s conclusion is the subject matter information, do respondents believe that the practitioner’s objective in paragraph 6(a) (that is, to obtain either reasonable assurance or limited assurance about whether the subject matter information is free of material misstatement) is appropriate in light of the definition of a misstatement (see paragraph 8(n))?*
- (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?*

Comments

- (a) We agree with the proposed changes in the terminology and believe that the proposed terms attestation engagements and direct-reporting engagements more aptly convey the scope, nature and import of such engagements, as expounded in the proposed ISAE 3000.
- (b) We believe that the proposed ISAE 3000 properly defines and explains the difference between “direct engagements” and “attestation engagements”.
- (c) We note that, as stated below, there are four possible combinations of assurance engagements other than audits or reviews of historical financial information:
 - 1. Limited Assurance on Attestation Engagements
 - 2. Reasonable Assurance on Attestation Engagements
 - 3. Limited Assurance on Direct Engagements
 - 4. Reasonable Assurance on Direct Engagements

The proposed ISAE does an adequate job of differentiating the objectives, requirements and other material appropriate to both limited assurance and reasonable assurance engagements. However, we are concerned that such differentiation between attestation and direct engagement is not so distinct and that brevity is achieved by trading off clarity. The interplay between level of assurance and nature of engagements further complicates the issue. We suggest that the proposed ISAE 3000 might follow the structure in the proposed ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements* and make use of the columnar format with the letters after the paragraph number to differentiate requirements that apply to only one or the other type of engagement. Further to these observations, we believe that:

- (i) In case of a direct engagement, when the practitioner’s conclusion is the subject matter information, the practitioner’s objective in paragraph 6(a) is not appropriate in light of definition of a misstatement (Paragraph 8(n)). This is because the practitioner is not independent of the subject matter information as the practitioner created that subject matter information, as explained in the Paragraph A6(a). The proposed ISAE 3000 should also clarify how and why, despite apparent lack of independence, a direct engagement assurance is in compliance with the IESBA *Code of Ethics for Professional Accountants*. We believe that guidance provided by Paragraphs 30 and A68 is insufficient to address these issues and, unless they are resolved pertinently, it would be more appropriate for the practitioner to perform a direct engagement as a compliance engagement, rather than as an assurance engagement under the framework of the proposed ISAE 3000.
- (ii) The requirements and guidance do not appropriately address circumstances, in some direct engagements, when the practitioner may select or develop the applicable criteria. For example, it is unclear how the practitioner can exercise quality control, professional skepticism and professional judgment objectively in the absence of independence from the subject matter information.

Question 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?*

(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?

(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?

Comments

- (a) We consider the requirement to include a summary of the work performed as the basis for the practitioner's conclusion to be appropriate. We believe that such summary enables the intended users to better comprehend the level of assurance conveyed by the practitioner's report.
- (b) We believe that this requirement is appropriate. We believe that the requirement will enhance transparency and understanding of the practitioner's report. This requirement is necessary for making an unambiguous distinction between the two types of assurance engagements.
- (c) We have not identified any need for further requirements or guidance.

Question 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?

Comments

We believe that the proposed form of practitioner's conclusion in a limited assurance engagement does not adequately convey the level of assurance obtained by the practitioner either *qualitatively* or *quantitatively*. We also believe that depending upon their comprehension of the contents of the practitioner's report; the intended users will make their own subjective judgments on the level of confidence that can be derived on the basis of the practitioner's conclusion. We also observe that the proposed form of practitioner's conclusion is more aligned to the concept of "negative assurance" in the extant ISAE 3000 rather than the concept of "limited assurance" in the proposed ISAE 3000.

Question 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?

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

Comments

- (a) We note that, in case of many assurance engagements, other professionals like engineers are actively involved; for example, assurance on GHG statements. However, we also note that such practitioners will be appropriately governed by the standards and codes of ethics set by their own professional bodies. Hence, we believe that, unless a jurisdiction confers exclusive authority, it is ineffectual to aspire to application of the proposed ISAE 3000 standard in that particular jurisdiction by competent practitioners, other than professional accountants in public practice.

- (b) We agree with the definition of practitioner as per the Paragraph 8(q) in the proposed ISAE 3000. We note that this definition is generic and not specific to the professional accountants. Hence, it is broad enough to cover the practitioners who are not professional accountants.

Additional Comments

We agree that an effective date of 12-15 months after approval of final ISAE 3000 standard, with earlier application permitted, would be appropriate. We also support the IAASB rationale for retaining separately the International Framework for Assurance Engagements, and for making the proposed ISAE 3000 self-contained by including all the material in the extant Framework that is necessary for ISAE 3000 to be understood without reference to the Framework.

Should you wish to discuss the contents of this comment paper or require further elaboration on any of the items presented herein, please do not hesitate to contact Kamallesh Gosalia at kgosalia@cga-canada.org or alternatively the undersigned at rlefevre@cga-canada.org.

Sincerely,

[Original signed by:]

Rock Lefebvre, MBA, CFE, FCIS, FCGA
Vice-President, Research & Standards