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Dear Madam or Sir

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

The European Banking Authority (EBA), which has come into being as of 1 January 2011, welcomes the opportunity to comment on the exposure draft of revised ISAE 3000 (the ED).

The EBA has a strong interest in promoting robust, high quality audit and assurance practices. This encompasses financial information as well as other information which is provided by companies.

In the period since the current ISAE 3000 was issued, there has been a growing demand for assurance services in areas other than assurance over historical financial information. For example, whilst not a common practice in all EU member states, several competent authorities are referring to ISAE 3000 when they mandate practitioners to perform assurance work on specific areas, such as on firms' regulatory reporting or on systems and controls.

In addition, the current ISAE 3000 pre-dates the IAASB clarity ISAs, which are structured to show more clearly the ISA's objectives, definitions and requirements, together with application and other explanatory material.

For these reasons, the EBA welcomes the work of the IAASB in developing the ED and the opportunity to provide our key comments on it. We have set these out in the appendix to this letter. We have grouped our comments into broad themes rather than answering each of the questions raised in the ED. The fact that we may not have commented on each of the specific matters raised in the ED should not be taken as either agreement or disagreement with those matters.

If you have any questions regarding our comments, please feel free to contact Ms. Sucher (+44 20 7066 5644) in her capacity as Chair of the technical group that coordinated the response.

Yours sincerely



Andrea Enria  
EBA Chairperson

## **Appendix:**

### **Definitions in the ISAE and the Assurance Framework**

There are a number of definitions or descriptions that are duplicated in the Assurance Framework and the ED, including for example:

- Professional scepticism
- Professional judgement
- Sufficiency and appropriateness of evidence
- Materiality
- Reasonable/limited assurance
- Attestation/direct engagement

We wonder whether it would be better if in the ED these were replaced by references to the Framework. We recognise that the Framework is not a binding standard but nevertheless we think that the use of cross-references could make clear that, for the purposes of the ED, the items being referred to are an integral part of the ED (and therefore binding).

Similarly, the ED refers to 'agreed upon procedures' engagements and 'compilation' engagements, but these are not defined in the ED itself, or cross referenced to the relevant definitions elsewhere.

Our understanding is that the definitions in paragraph 8(o) and 8(p) refer to those situations where the subject matter information and assurance report are contained in documents that include other information, as described in paragraph 54. It would be helpful to make this clearer in the definitions themselves, perhaps with a cross-reference to paragraph 54.

### **Definition of assurance engagements and use of such engagements in practice**

Paragraph 8 of the ED sets out the definition of an assurance engagement which is classified on two dimensions, being, (i) the level of assurance; and (ii) the reporting nature of the engagement.

With regard to the level of assurance, paragraph 8(a) states that in an assurance engagement "a practitioner aims to obtain sufficient appropriate evidence" - it is not clear to us why the practitioner should not be required to obtain such evidence, rather than just aiming to obtain it. In addition, paragraphs 37-38 of the ED, which deal with obtaining evidence, seem to be more oriented towards documenting the assurance procedures the practitioner has performed. That said, we do note that paragraph 44 requires the practitioner to evaluate the sufficiency and appropriateness of the evidence obtained in the context of the engagement, which is helpful.

The ED could be clearer and more positive in stating that reasonable assurance is a high level of assurance. We think that this is qualitatively different from reducing "engagement risk to an acceptably low level in the circumstances of the engagement".

The definition of limited assurance in the ED is more detailed than in the current ISAE 3000 and we think this additional detail is helpful. In particular, we welcome the statement that the assurance provided should be a "level of assurance that is... meaningful to users".

That said, the experience of some prudential regulators, when seeking assurance over prudential reporting by a financial institution or the institution's compliance with qualitative requirements on corporate governance or risk management systems, is that practitioners tend to resist reasonable assurance reporting. Instead, there appears to be a preference for agreed upon procedures or negative assurance.

Clarification (including practical examples) on the application of different types of assurance to different engagements such as those mentioned above would be particularly helpful.

With regard to the nature of reporting – attestation engagement or direct engagement – this is an area that has been the subject of confusion and debate in the past and we welcome the additional clarification set out in the ED. In particular we think that the explanation about direct engagements set out in paragraph A6 is helpful in explaining that the need for the practitioner to be independent from the underlying subject matter does not preclude the practitioner preparing the subject matter information for inclusion in the practitioner’s report. Again, it would be helpful if the ED included practical examples of both types of engagement to illustrate the distinction between them.

### **Understanding of internal controls in a limited assurance engagement**

Paragraph 37 limits the requirement for the practitioner to obtain an understanding of internal control over the preparation of the subject matter information to reasonable assurance engagements only. In our view the practitioner should be required to obtain this understanding for a limited assurance engagement as well. Especially in a limited assurance engagement we believe that there is much added value in requiring the practitioner to obtain an understanding of the internal controls involved in compiling the subject matter information, since the outcome of the underlying subject matter itself is not measured or evaluated and hence the reliance on internal controls increases. This may include, for example, understanding (i) the process for accurate extraction of the underlying subject matter information from reasonable sources; (ii) the process for making appropriate adjustments to that information; and (iii) the process for aggregating that information into the subject matter information.

### **Description of procedures in the assurance report**

The difference between a reasonable assurance engagement and a limited assurance engagement is essentially the extent of work performed by the practitioner. The practitioner is required to give an informative summary of the work performed as the basis for the practitioner's conclusion. In a limited assurance engagement this summary should state that the assurance procedures performed are more limited than for a reasonable assurance engagement. We welcome these requirements in paragraph 60(k) and regard them as appropriate. However, users of a limited assurance report may also be interested to understand what additional assurance procedures would be necessary to allow the practitioner to give reasonable assurance.

### **Acceptance and continuance / ethical requirements**

Paragraph 18 states that a practitioner shall accept or continue an assurance engagement only when the practitioner has “no reason to believe that ethical requirements, including independence, will not be satisfied”. We think that this negative wording is not appropriate given that adherence to ethical requirements is of fundamental importance for users’ confidence in the practitioner’s work and report. That is why we think the requirement should be strengthened, by framing it in positive wording.

Paragraph 19 states that where the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier; the engagement partner shall communicate that information promptly to the firm so that the firm and the engagement partner can take the necessary action. We think that there is merit in referring to the partner responsible for monitoring the firm's quality control policies and procedures rather than the firm in general.

Paragraph 20(a) requires that the roles and responsibilities of the appropriate parties are “suitable in the circumstances”. It is not clear what this means and the related paragraphs in the Application Material (paragraphs A34-36) are not particularly helpful in providing further guidance for this requirement.

### **Application of ISAE 3000 by competent practitioners other than professional accountants in public practice**

The ED considers whether the proposed ISAE 3000 could be applied by competent practitioners other than professional accountants in public practice and concludes that there is benefit in allowing this.

Paragraph 2 of the ED makes clear that members of the engagement team and the engagement quality control reviewer are subject to Parts A and B of the Code of Ethics for Professional Accountants and the practitioner who is performing the engagement is a member of a firm that is subject to ISQC 1, or requirements that are at least as demanding as ISQC 1.

It is not clear to us whether there are currently other competent practitioners that would meet these requirements and therefore be able to apply the ISAE. That said, we agree that the requirements set out in the ED in this regard are appropriate and it would likely be inappropriate to soften them to allow wider application of the ISAE. Nevertheless, it may be helpful or informative to understand whether the IAASB has any other groups in mind that may be able to meet the required criteria.

### **Consequential amendments to the Assurance Framework**

The ED includes amendments to the International Framework for Assurance Engagements, which are described as consequential amendments that do not change underlying concepts in the Framework other than to clarify them where such a need has been identified.

Nevertheless, we note that there are a large number of such amendments, and given the overarching nature of the Framework, we wonder whether there is a need to have a separate consultation / exposure process for such changes. This would widen the range of responses and would mitigate the risk of unintended consequences.

### **Potential inconsistency in the ED**

We note that some parts of the ED (for example paragraph 63) make reference to the practitioner concluding on whether the subject matter is prepared in all material respects in accordance with applicable criteria. In other parts, the reference is to material misstatements – for example in item (b) on page 8, Q5 on page 14, Paragraph 6(a) on page 19, paragraph 8(q) on page 22, paragraph 56 on page 31, paragraph 64 on page 34, paragraph A7 on page 37, paragraph A152 on page 70. This could suggest that there is an inconsistency in the ED as to the conclusion that the practitioner should be reaching.