



Direct Engagements

ASB meeting

January 11, 2016

Dan Montgomery and Mike Santay

Overview of IAASB Project

Project proposal – March 2009

- Survey of standard setters indicated that extant ISAE 3000 was being applied without significant difficulty, but indicated opportunities to clarify how some underlying concepts should be applied in practice
- Project objectives were to provide enhanced requirements and guidance and to adopt clarity drafting conventions
- Conforming amendments to Assurance Framework (but not change fundamental concepts of assurance) and subject-matter-specific ISAEs

Exposure draft – April 2011

- Covered both attestation and direct engagements
- Majority of respondents generally supported material for both types of engagements, subject to minor clarifications
- Some, however, thought the inclusion of both would make the standard difficult to read and apply in practice and recommended a separate standard; others asked for more guidance for direct

Overview of IAASB Project (cont'd)

Discussion of issues following the ED – 2012-2013

- **IAASB continued to support inclusion of direct engagements within the scope of the standard (i.e., desire for a single umbrella standard)**
- **Some discussion about independence in a direct engagement**
 - Noted that such engagements are specifically permitted by the IESBA Code
 - Practitioner is independent of the responsible party (i.e., party responsible for the subject matter) and the underlying subject matter itself
- **Board explored more clearly differentiating attestation and direct engagements by using a columnar approach for the respective requirements (similar to ISAE 3410)**
- **Continued attempts to further refine and clarify the guidance for direct engagements**
 - Some, particularly from public sector, were concerned that certain definitions, requirements and guidance had too strong an “attestation” focus and may not be appropriate or relevant for direct engagements (for example, the definition of “misstatement” and concept of “proper measurement or evaluation”)

Final standard – approved September 2013

IAASB Direction on Direct Engagements

- **Extensive discussions about alternatives to include requirements and guidance for both attestation and direct engagements**
- **As deliberations continued, IAASB noted that addressing both in a single standard would result in a complex document**
- **IAASB also recognized the need to complete work on ISAE 3000 as soon as possible**
- **Decision to focus standard on attestation engagements, but may be applied, adapted and supplemented as necessary, to direct engagements**
- **IAASB recognized that ISAE 3000 contained limited guidance for performing direct engagements**
 - Further consideration as part of future strategy and work programs
 - Monitor work of national standard setters or others that might develop separate standards or guidance for direct engagements

Fundamentals of ISAE 3000 (Revised)

Assurance engagement

- Reasonable assurance or limited assurance
- Attestation engagement or direct engagement

Key points

- Assurance engagements have at least three parties: responsible party, practitioner and intended users
- Also may be an “engaging party” -- discussed in context of agreeing the terms of the engagement
- Responsible party => always responsible for the subject matter
- In an attestation engagement, an “assertion” is provided by the responsible party to intended users in the form of a report, statement or similar written output (i.e., a written manifestation of the outcome of the evaluation or measurement of the subject matter against the applicable criteria)
- All assurance engagements require written representations, including confirming the measurement or evaluation against applicable criteria

Who Measures or Evaluates?

“Old” Assurance Framework	ISAE 3000 (Revised)	ASB
<p>Assertion-based</p> <p><i>Performed by responsible party, and <u>subject matter information is in the form of an assertion</u> provided to intended users</i></p>	<p>Attestation</p> <p><i>A party other than the practitioner, who also often presents the subject matter information in the form of a report or statement</i></p>	<p>Attestation</p> <p><i>A party other than the practitioner <u>makes an assertion</u> about whether the subject matter is measured or evaluated in accordance with suitable criteria</i></p>
<p>Direct reporting</p> <p><i>Performed by the practitioner, or by responsible party and <u>representation obtained</u> that is not available to intended users</i></p>	<p>Direct</p> <p><i>Practitioner, who also presents the subject matter information as part of, or accompanying, the assurance report</i></p>	

Questions?

Overview of ASB Activities

The following is a brief summary of activities and events

- **Attestation task force determines not to include direct engagements in scope of the clarification project standard due to the expected timing of IAASB finalizing ISAE 3000 (2011)**
- **ASB meets with Canadian standard-setters in an information session regarding their adoption of a stand-alone direct engagement standard (July 2014)**
 - Noted that such engagements are mostly performed in three-party situations pursuant to government agency or jurisdictional requirement
- **IAASB adopts final ISAE 3000 effective for reports issued after December 15, 2015 (December 2013)**
- **AITF forms a direct engagement task force to develop a standard/attest chapter on performing direct engagements (2014)**
- **ASB discusses issues paper (October 2015)**
- **ASB/PEEC/PEER Review Board discuss direct engagements and potential independence/peer review issues (January 2016)**

Questions for ASB discussion:

Measurement of the subject matter

- **If the ASB permitted direct engagements do you believe that there is an expectation from users that management has first measured the subject matter?**
- **If yes, do you believe that is also true of an audit or review of historical financial statements?**

Scope

- **Should the direct engagement standards prohibit a practitioner from performing a direct engagement on certain subject-matters?**
 - Task force views were mixed on this question; would application guidance be sufficiently precautionary?
- **Should direct engagements be limited to examinations?**
 - Note: AITF has previously discussed moving forward with a 'specified procedures standard'- essentially AUP without the assertion.

Questions for ASB discussion (cont.):

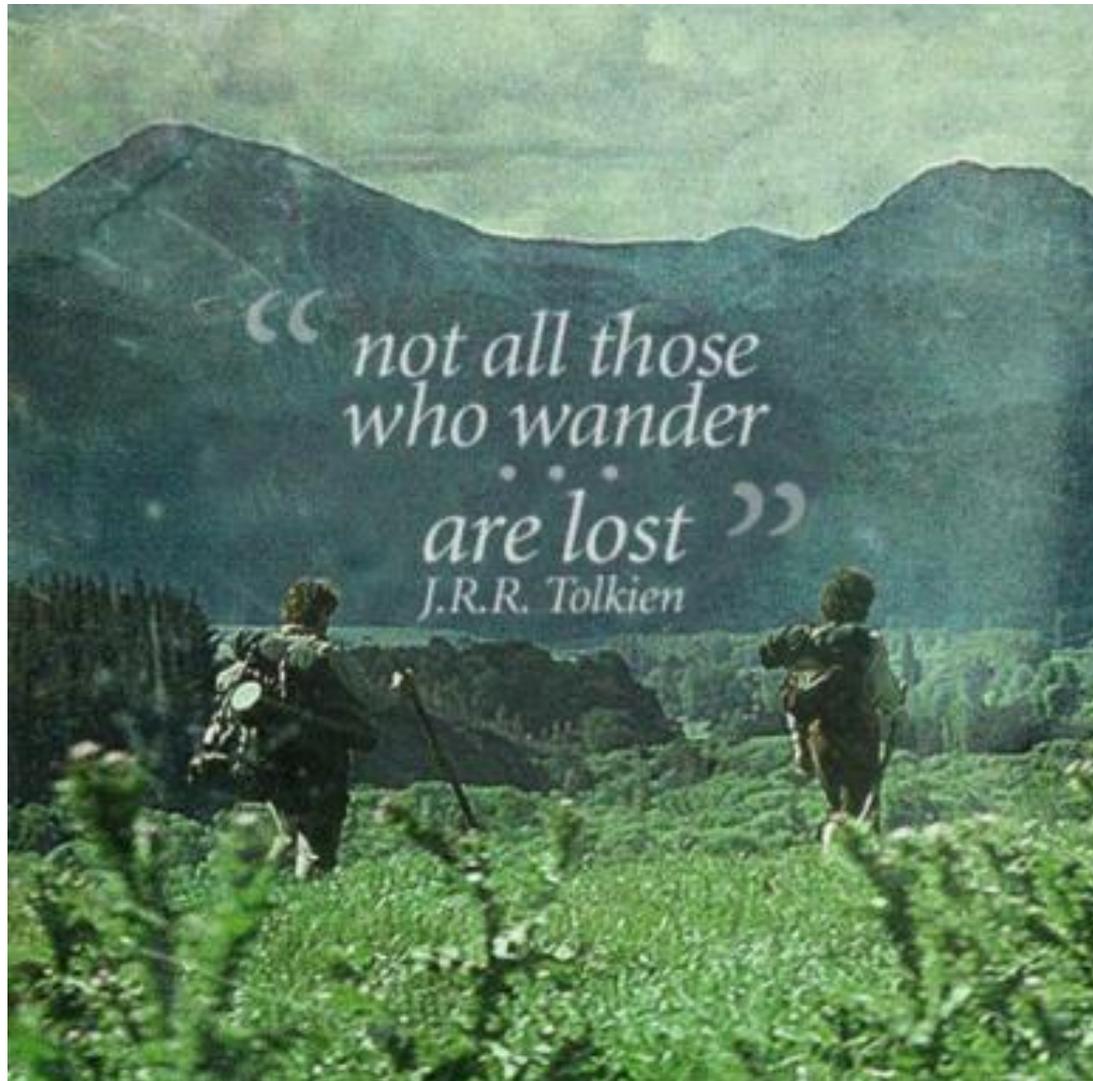
Other differences from assertion-based attestation engagements

- **Should the direct engagement standard use different terminology for certain attestation concepts, for example, the definition of “misstatement”, and introduce the term “subject matter information”?**
- **How should the performance requirements differ, if at all, from the requirements in Chapter 2 of the clarified attestation standards?**
 - Task force views were mixed on this; at minimum application guidance could address potential circumstances the practitioner would need to consider regarding risk assessment, understanding of controls, etc.

Reporting

- **Does the ASB believe that users would expect a direct engagement report to be different from an assertion-based report?**
- **Do you foresee any concerns with a direct engagement report that looked essentially the same as an assertion-based attest report?**

Next steps...



Thank You



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