

# ISAE 3000 & 3402 ISQM 1

December 2021



# ISAE 3000 (Revised)

## Assurance Engagements Other than Audits or Reviews of Historical Financial Information

# ISAE 3000 - scope

- Assurance engagements related to non-historical financial information
- Generally seek to provide assurance on the measurement or evaluation of the underlying subject matter against particular criteria
- Engagements can be:
  - Attestation engagements – where the entity assessed the measurement/evaluation
  - Direct engagements – where the practitioner assesses the measurement/evaluation
- Such an engagement can be:
  - Reasonable assurance; or
  - Limited assurance.

# Uses for ISAE 3000 reports

- CSR reporting
- Carbon reporting
- Sustainability reporting
- Internal controls over non-financial information
- Non-financial disclosures
- Statements of compliance with laws and regulation
- Compliance with contractual requirements

# Cases where ISAE 3000 would be inappropriate

- Non-assurance engagements such as agreed upon procedures and compilation engagements
- Tax related engagements
- Consulting or other advisory engagements
- Assurance on historical financial information

# Prerequisites

- The standard requires compliance with parts A and B of the IESBA Code of Ethics are applicable
- Also means that the assurance partner providing this service needs to be a member of an organization that meets the requirements of ISQC 1 (and soon to come ISQM 1)

# Assurance types

## Reasonable assurance

- Engagement risk reduced to an acceptably low level; and
- The conclusion is an opinion on the outcome of the measurement or evaluation criteria.

## Limited assurance

- Engagement risk reduced to a level that is acceptable to the engagement but assurance is less than that under reasonable assurance; and
- The conclusion is a negative one which reports on any matters that have come to the practitioners attention to cause the practitioner believe whether the subject matter information is materially misstated.

# Limited assurance

- Nature, timing and extent of procedures can be lower than those needed for reasonable assurance
- However the level of assurance provided needs to be meaningful
- Meaningful – should enhance the users confidence to a degree that is clearly more than inconsequential

# Essential procedures

- Establishment of TCWG and communication therewith
- Engagement acceptance considerations
- Clear acknowledgement from the organization of its responsibilities
- Engagement quality control procedures
- Team set-up
- Planning the engagement
- Materiality

# Essential procedures (continued)

- Obtain an understanding of the subject matter
- Obtain evidence relating to the relevant evaluation criteria
- Seek written representations
- Consider other information and subsequent events
- Forming a conclusion
- Reporting

# Report format

- Title
- Addressee
- Identification of level of assurance
- Identification of the applicable criteria
- Restrictions of use
- Responsibilities of responsible party and the assurance provider
- Statement on compliance with ISAE, IESBA Code and ISQC 1
- Summary of the procedures applied/work performed
- Opinion

# ISAE 3000 – Specimen report (adopted from IRBA)

## **Independent Auditor’s Reasonable Assurance Report on Selected Key Performance Indicators <sup>[N4]</sup>**

*To the Directors <sup>[N5]</sup> of ABC Limited*

### **Report on Selected Key Performance Indicators**

We have undertaken a reasonable assurance engagement on selected key performance indicators (KPIs), as described below, and presented in the 20xx Sustainability Report <sup>[N6]</sup> of ABC Limited (ABC) for the year ended (*insert date*) (the Report). This engagement was conducted by a multidisciplinary team including [*health, safety, social, environmental and assurance*] specialists with relevant experience in sustainability reporting. <sup>[N7]</sup>

# ISAE 3000 – Specimen report (adopted from IRBA)

## *Subject Matter* <sup>[N8]</sup>

We have been engaged to provide a reasonable assurance opinion in our report on the following selected KPIs <sup>[N1]</sup>, marked with a 'RA' on the relevant pages in the Report. The selected KPIs described below have been prepared in accordance with ABC's reporting criteria that accompanies the sustainability information on the relevant pages of the Report (the accompanying ABC reporting criteria) <sup>[N2]</sup>

# ISAE 3000 – Specimen report (adopted from IRBA)

Category	Selected KPIs <sup>1</sup>	Scope of Coverage
Environmental	<ul style="list-style-type: none"> <li>• Total water usage (pg xx),</li> <li>• Carbon Footprint (pg xx),</li> <li>• Waste generated (pg xx),</li> <li>• Total energy usage (pg xx)</li> </ul>	ABC operations at site 1, 2 and 3
Social	<ul style="list-style-type: none"> <li>• Total training spend (pg xx),</li> <li>• Women in mining as a percentage of total employees (pg xx),</li> <li>• Percentage HDSA<sup>2</sup> in management (pg xx)</li> </ul>	ABC Group
Health and Safety	<ul style="list-style-type: none"> <li>• Lost time injury frequency rate (pg xx),</li> <li>• Number of noise induced hearing loss cases (NIHL) of more than 10% (pg xx)</li> </ul>	ABC Group

# ISAE 3000 – Specimen report (adopted from IRBA)

## *Directors' Responsibilities*

The Directors are responsible for the selection, preparation and presentation of the selected KPIs in accordance with the accompanying ABC reporting criteria <sup>[N2]</sup>. This responsibility includes the identification of stakeholders and stakeholder requirements, material issues, commitments with respect to sustainability performance and design, implementation and maintenance of internal control relevant to the preparation of the Report that is free from material misstatement, whether due to fraud or error. The Directors are also responsible for determining the appropriateness of the measurement and reporting criteria in view of the intended users of the selected KPIs and for ensuring that those criteria are publicly available to the Report users.

## *Inherent Limitations* <sup>[N9]</sup>

*[Insert text if applicable]*

# ISAE 3000 – Specimen report (adopted from IRBA)

## *Our Independence and Quality Control*

We have complied with the independence and all other ethical requirements of the *Code of Professional Conduct for Registered Auditors*, issued by the Independent Regulatory Board for Auditors (IRBA) that is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B) <sup>[N10]</sup>, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

*[Name of firm]* / *[The firm]* applies the International Standard on Quality Control 1, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

# ISAE 3000 – Specimen report (adopted from IRBA)

## *Auditor's Responsibility*

Our responsibility is to express a reasonable assurance opinion on the selected KPIs based on the procedures we have performed and the evidence we have obtained. We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) <sup>[N11]</sup>, *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board. That Standard requires that we plan and perform our engagement to obtain reasonable assurance about whether the selected KPIs are free from material misstatement.

A reasonable assurance engagement in accordance with ISAE 3000 (Revised) involves performing procedures to obtain evidence about the measurement of the selected KPIs and related disclosures in the Report. The nature, timing and extent of procedures selected depend on the auditor's professional judgement, including the assessment of the risks of material misstatement of the selected KPIs, whether due to fraud or error.

# ISAE 3000 – Specimen report (adopted from IRBA)

In making those risk assessments we have considered internal control relevant to ABC's preparation of the selected KPIs. A reasonable assurance engagement also includes:

- Evaluating the appropriateness of quantification methods, reporting policies and internal guidelines used and the reasonableness of estimates made by ABC;
- Assessing the suitability in the circumstances of ABC's use of the applicable reporting criteria<sup>[N2]</sup> as a basis for preparing the selected information; and
- Evaluating the overall presentation of the selected sustainability performance information

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# ISAE 3000 – Specimen report (adopted from IRBA)

## *Reasonable Assurance Opinion* [N12]

In our opinion [*and subject to the inherent limitations outlined elsewhere in this report*], the selected KPIs as set out in the Subject Matter paragraph above for the year ended (*insert date*) are prepared, in all material respects, in accordance with the accompanying ABC reporting criteria. [N2] [N13]

# ISAE 3000 – Specimen report (adopted from IRBA)

## *Restriction of Liability* <sup>[N19]</sup>

Our work has been undertaken to enable us to express a reasonable assurance opinion on the selected KPIs to the Directors of ABC in accordance with the terms of our engagement, and for no other purpose. We do not accept or assume liability to any party other than ABC, for our work, for this report, or for the conclusion we have reached.

## **Report on Other Legal and Regulatory Requirements** <sup>[N20]</sup>

*[Form and content of this section of the assurance report will vary depending on the nature of the auditor's other reporting responsibilities.]*

**(Firm name of Registered Auditor)** <sup>[N21]</sup>

*Registered Auditor's signature*

# ISAE 3402

## Assurance Reports on Controls at a Service Organization

# ISAE 3402 - scope

- Assurance engagements to report on controls at a service organization
- Users of such reports are the user entities and their auditors but also potentially other stakeholders
- Focuses on controls as they relate to financial reporting
- Such an engagement can be:
  - Reasonable assurance; or
  - Limited assurance.

# Opinion types

## Type 1

- Whether the description fairly represents the system that has been designed and implemented; and
- Whether the controls were suitably designed

## Type 2

- In addition to the above, whether the controls tested operated effectively throughout the relevant period.

# ISAE 3402 – relationship to ISAE 3000



- The standard requires compliance with ISAE 3000
- This means that parts A and B of the IESBA Code of Ethics are applicable
- Also means that the assurance partner providing this service needs to be a member of an organization that meets the requirements of ISQC 1 (and soon to come ISQM 1)
- The reports under ISAE 3402 are supplemental to the service organizations statements regarding the design of its internal controls & not a replacement thereof

# Objectives of the service auditor

- To obtain assurance about whether, in all material respects:
  - The described system of internal control presents the system as designed and implemented throughout the specified period;
  - The described controls were properly designed
  - Where included in the scope, that the controls operated effectively throughout the specified period (Type 2)
- Issue a report on the matters above

# Essential procedures

- Establishment of TCWG and communication therewith
- Engagement acceptance considerations
- Clear acknowledgement from the service organization of its responsibilities
- Determine whether suitable criteria have been applied in the system description by the service organization including:
  - Identification of risks
  - Controls identification that would mitigate the said risks
  - Period of operating of such controls

# Essential procedures (continued)

- Determine materiality
- Obtain an understanding of the service organization
- Obtain evidence relating to the system description
- Obtain evidence about the design of controls
- Obtain evidence regarding the operating effectiveness of controls (Type 2)
- Seek written representations
- Consider other information and subsequent events
- Reporting

# Report format

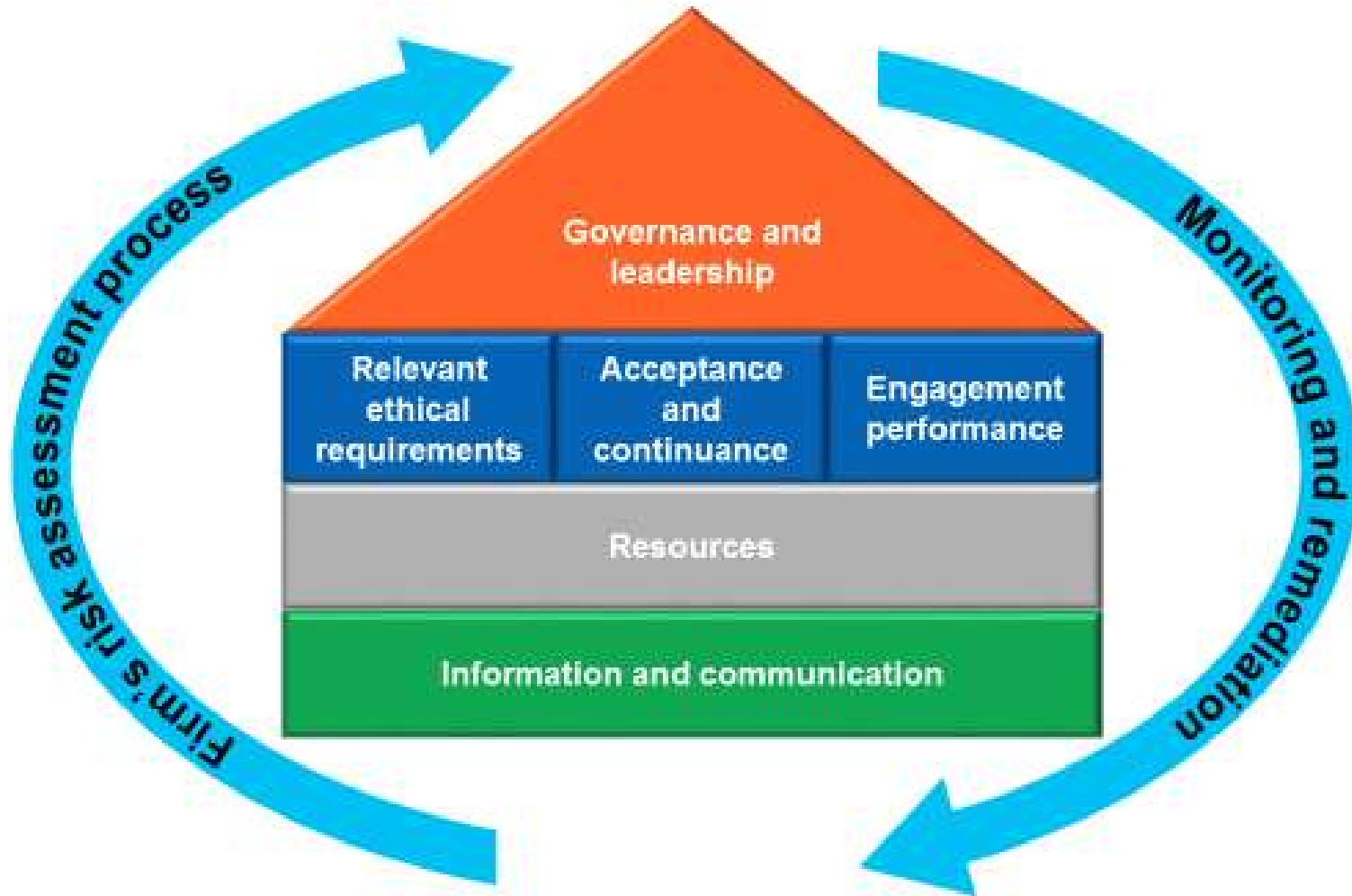
- Title
- Addressee
- Identification of subject matter of assurance procedures
- Restrictions of use
- Responsibilities of service organization and the assurance provider
- Opinion

# ISQM – quick recap

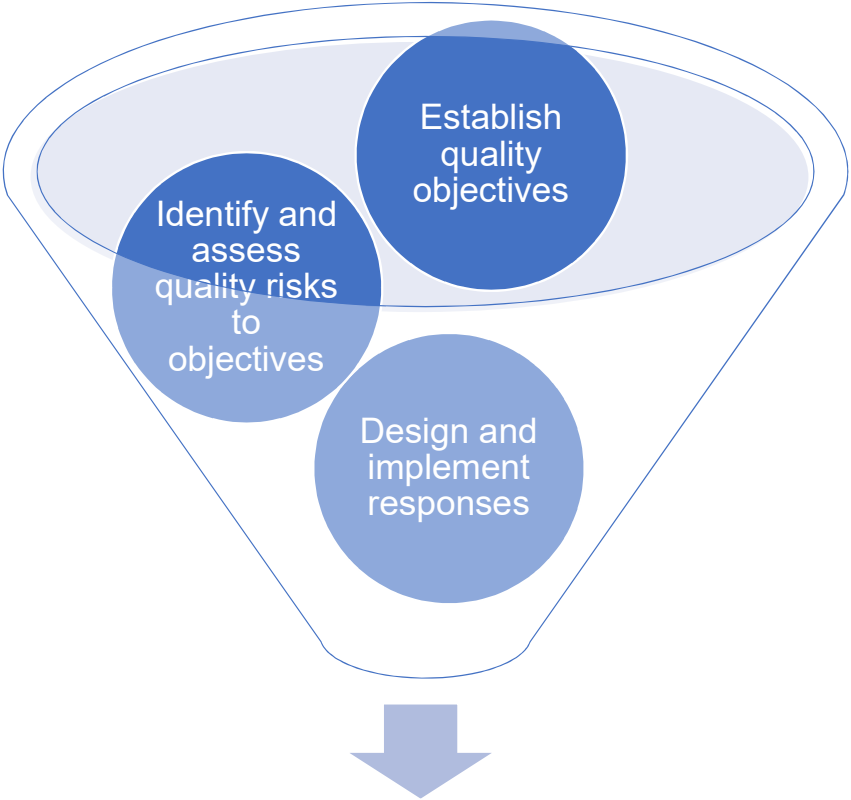
# The new standards

- International Standard on Quality Management 1 (ISQM 1) - by December 15, 2022
- International Standard on Quality Management 2 (ISQM 2): Engagement Quality Reviews (EQR) - financial statements and other assurance and related services engagements for periods beginning on or after December 15, 2022
- ISA 220 (Revised): Quality Management for an Audit of Financial Statements - for periods beginning on or after December 15, 2022

# ISQM 1



# Risk based approach

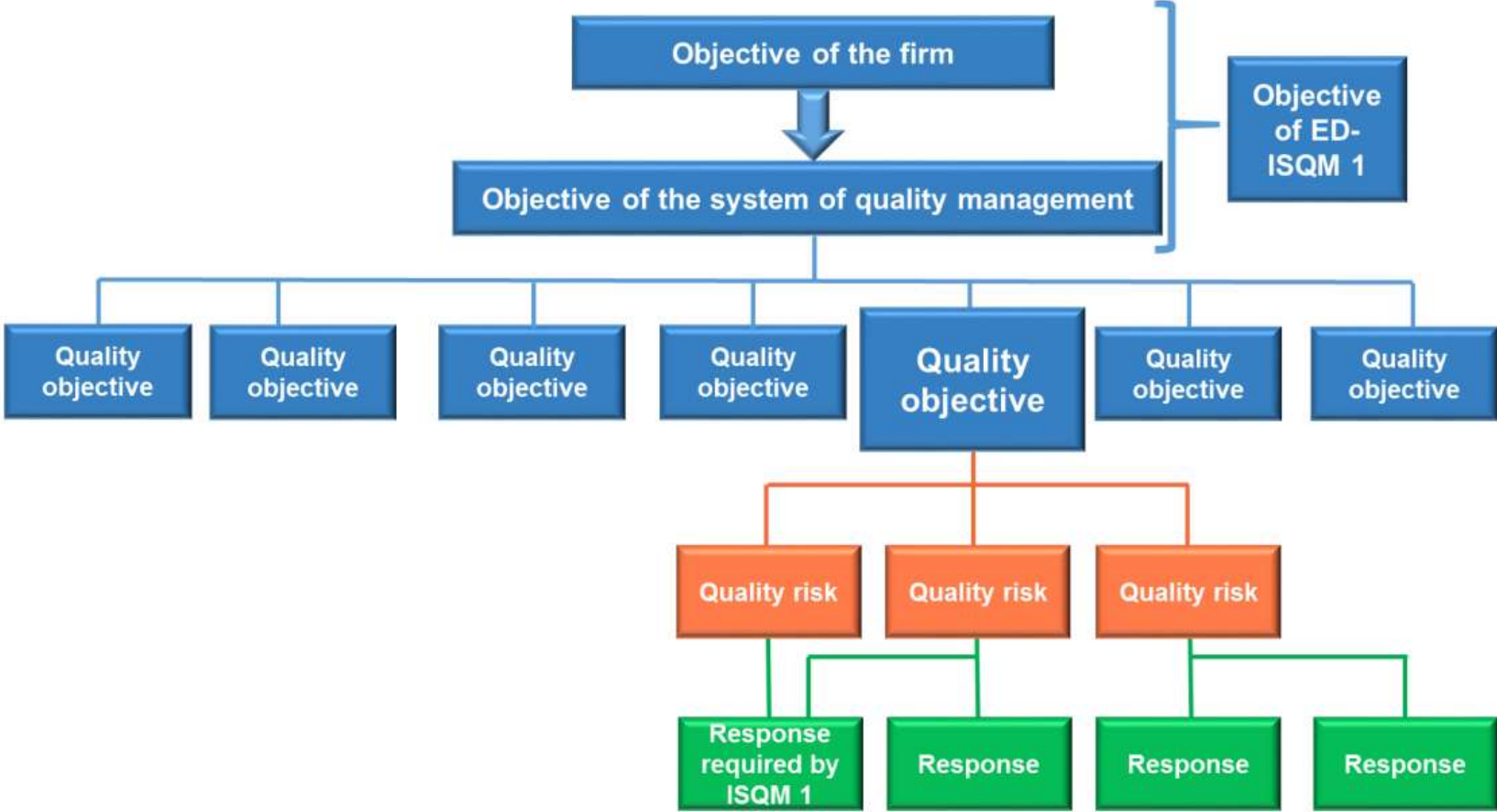


Risk-based approach to quality management

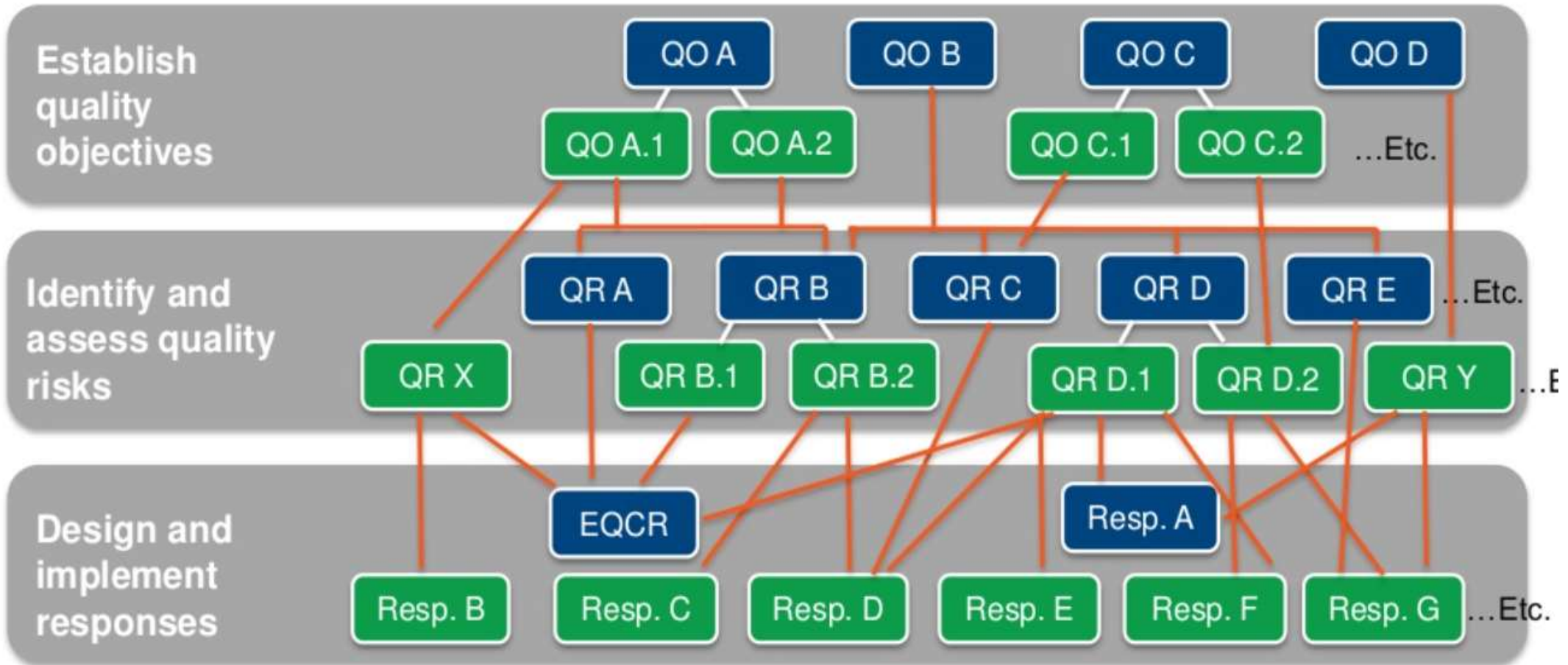
# Quality risks



# D&I of responses



# Mapping responses





# Example of change

## • Extant ISCQ 1.26

- The firm shall establish policies and procedures for acceptance and continuance of client relationships and specific engagements, designed to provide.. reasonable assurance... undertake... engagements where the firm... has considered the integrity of the clients, ad does not have information that would lead it to conclude that the client lacks integrity

## ISQM 1

- Prescribed quality **objective**:
  - The firm accepts and continues client relationships and specific engagements for which the firms is ... satisfied with the integrity and ethical values of management and, when appropriate, those charged with governance.
- Prescribed quality **risk**: 
  - The firm accepts or continues a client relationship or specific engagement, in circumstances when management, and when appropriate, those charged with governance, lack integrity and ethical values, including as a result of a failure to obtain or generate and communicate information to support the firms consideration of the integrity and ethical values
- Prescribed quality **responses**: 
  - The firm designs and implements and appropriate A&C process to make sure that it is satisfied with the integrity and ethical values of management and, when appropriate, those charged with governance.

# In summary.....

- Less than a year to go to 15 December 2021
- A lot of work involved – compliance of the standard needs to be tailored for every professional practice independently
- Involvement of senior leadership is critical

**Asif Chaudhry**  
**PKF Kenya LLP**