

## Made ISAE 3000 Proceeds from Assurance Services other than Audit or Review of Historical Financial Information Revised Any Changes?

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**Abstract:** This paper addresses the issue of International Auditing Standards for Assurance Services (ISAE), which should be applied to assurance engagements. The subject of our review was ISAE 3000 Assurance Services ... as it went through the review process to increase transparency in the provision of assurance services and ultimately to achieve effective application of international auditing standards in the area under review. Our objective is to analyze and conceive the auditing standard in question with the emphasis on the changes that the review process has brought.

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### 1 Introduction

The current economic practice brings a lot of changes. Not forgetting is the area of accounting and finally auditing too. Accounting and auditing are in mutually interacting.

The main objective of any accounting system is to provide information. This goal is achieved by presenting financial statements of an accounting entity with purpose to provide information about the financial position, performance and changes in financial position of that entity which is useful to a wide range of users in making relevant economic decisions. The question is to what extent the information are relevant. (Tumpach, Manová, Meluchová, 2014)

According to Šlosárová (2014), Tumpach (2006), Mackenzie et al. (2014), Máziková & Ondrušová (2014) financial statements are designed to provide useful information to various users. Not all information needs can be met by financial statements. There are needs which are common to all users while each group of users has specific needs for information. (Parajka, 2016)

It can be said, that requirements for accounting and reporting are continuously rising, particularly in terms of comparability of financial information. (Kubaščíková, Pakšiová, 2015)

The objective of the audit is to increase the confidence of users in the financial information presented in the financial statements. Trust can be enhanced by well-performing audits that are governed by ISA (International Standards on Auditing), ISAE (International Standards on Assurance Engagements), ISRS (International Standards on Related Services), and ISRE (International Standards on Review Engagement). According Křišková, Užík, 2016 users of audited accounts receive a wider range of information about the entity to meet their economic decision-making needs.

The subject standards are constantly undergoing extensive changes. For this reason, our research has become ISAE 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000), the purpose of which is to provide guidance to accountancy professionals providing customized services to provide a high degree of assurance.

The aim of our contribution is to examine and analyze the auditing standard in question and to draw conclusions on the basis of the facts.

Our intention is primarily to identify and present changes to ISAE 3000 that have occurred as a result of the review process.

## 2 Methodology and Data

The object of examining this submission is the ISAE 3000, because it passed through the revision process. (Simnett, 2012) Our goal is to point to changes in the standard in question as a result of the review process conducted to make contracts more transparent, which are not an audit or a review of historical financial information.

We believe that the ISAE 3000 application auditor can find out sufficient evidence to conclude a conclusion in order to increase the confidence of users in the outcome of the assessment or evaluation of the subject matter of the contract.

We used theoretical knowledge on the subject in the course of the subject of focus of the submitted paper. A great deal of the information has been gained from the Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements available on the Internet.

The selection method we selected the most relevant information, and the abstraction method we abstracted from insubstantial information at the same time.

In the field of theoretical analysis, we used the method of deduction in order to clarify and present the basic theoretical knowledge, which, following the knowledge of the reasons leading to changes in auditing standards, we have succeeded in presenting significant changes to the standard in question as a result of the review process.

In evaluating and clarifying the conclusions, we applied a method of analysis. The application the analysis method we ultimately revealed and presented the changes of the revised ISAE 3000. Based on the findings, we attempted to conceive the conclusions to the object of our investigation.

## 3 Results and Discussion

The International Standard on Assurance Engagements (ISAE 3000) deals with assurance engagements other than audits or reviews of historical financial information. Audit and review of historical financial information are dealt with in International Standards on Auditing (ISAs) and International Standards on Review Engagements (ISREs). (IFAC, 2016-2017).

### 3.1 The Assurance Engagement

#### 3.1.1 Preconditions for accepting the Assurance Engagement

The auditor must find out whether the preconditions for an assurance engagement are present, and he must decide: (ISAE 3000, par. 24.)

(a) The roles and responsibilities of the appropriate parties are suitable in the circumstances;

(b) The engagement exhibits all of the following characteristics:

- The underlying subject matter is appropriate;
- The criteria (relevance, integrity, reliability, neutrality, intelligibility) to be applied in the preparation of the subject

matter information are suitable and will be available to the intended users; - The auditor will have access to the evidence needed to support the his conclusion; - The auditor's conclusion, in the form appropriate to either a reasonable assurance engagement or a limited assurance engagement, is to be contained in a written report; and - A rational purpose including, in the case of a limited assurance engagement, that a meaningful level of assurance can be obtained.

### **3.1.2 Agreeing on the Terms of the Engagement**

The auditor shall agree to the terms of the engagement with the engaging party. The agreed terms of the engagement shall be specified in the contract contracts, in an engagement letter or other suitable form of written agreement, confirmation, or in laws or regulations.

#### **3.1.3 Assurance Report Prescribed by Laws or Regulations**

In some cases, laws or regulations of the relevant jurisdiction prescribe the layout or wording of the assurance report. The auditor shall evaluate in these circumstances,

- (a) Whether intended users might misunderstand the assurance obtained from the engagement;
- (b) and If so, whether additional explanation in the assurance report can mitigate possible misunderstanding. If the auditor concludes that additional explanation in the assurance report cannot mitigate possible misunderstanding, the practitioner shall not accept the engagement, unless required by laws or regulations to do so. An engagement conducted in accordance with such laws or regulations does not comply with ISAEs. Accordingly, the auditor shall not include any reference within the assurance report to the engagement having been conducted in accordance with ISAE 3000 or any other ISAE(s).

#### **3.1.4 Professional Skepticism and Professional Judgment.**

The auditor shall plan and perform an engagement with professional skepticism. Auditor's professional skepticism is the auditor's attitude based on critical thinking. The auditor should be alert to indicators that may indicate possible misstatements or discrepancies in the evidence obtained. (Krišková, Užík, 2017).

Professional skepticism admits that there may be circumstances that cause the subject matter information to be materially incorrect. The auditor is required to exercise expert judgment when planning and executing the engagement, including decision-making on the nature, timing and extent of procedures. As part of the iterative and system process of the engagement, the auditor is required to apply assurance skills and techniques.

## **3.2 Planning the Engagement and forming the conclusion**

### **3.2.1 Planning and Performing the Engagement Planning**

The Auditor plans the engagement to be executed efficiently. When planning, it also sets out the scope, timing and targeting of the contract, and specifies the nature, timing and scope of the procedures to be followed in order to achieve its objective. The auditor shall determine whether the criteria selected are appropriate in the light of the circumstances of the contract and whether they have the characteristics listed in the standard. (ISAE 3000, 40 -43).

When the acceptance of the contract reveals that one or more assumptions for the assurance engagement are not met, the auditor shall discuss this with the party or parties concerned and shall decide:

- (a) whether the matter can be resolved to its satisfaction; (b) whether it is appropriate to proceed with the contract work; (c) whether the fact is to be included in the reassurance report and, if so, how.

When the acceptance of a contract reveals that some or all of the relevant criteria are inappropriate, or that part or all of the subject matter of the contract is not appropriate for the assurance engagement, the auditor will consider whether it is appropriate to withdraw from the engagement if such withdrawal permits a valid law or regulation. If the auditor continues to engage in a contract, he or she is obliged to make a contingent conclusion or a negative conclusion.

### **3.2.2 Forming the Assurance Conclusion**

The auditor shall form a conclusion about whether the reported outcome of the measurement or evaluation of the underlying subject matter is free from material misstatement. In forming that conclusion, the practitioner shall consider:

- (a) The practitioner's conclusion in standard regarding the sufficiency and appropriateness of evidence obtained; and (b) An evaluation of whether uncorrected misstatements are material, individually or in aggregate.

If the practitioner is unable to obtain sufficient appropriate evidence, a scope limitation exists and the practitioner shall express a qualified conclusion, disclaim a conclusion, or withdraw from the engagement, where withdrawal is possible under applicable laws or regulations, as appropriate.

## **3.3 Assurance Report**

### **3.3.1 Preparing the Assurance Report**

The assurance report shall be in writing and shall contain a clear expression of the auditor's conclusion that conveys the assurance obtained about the subject matter information.

The auditor's conclusion on the subject matter information shall be clearly separated from any emphasis of matter, findings, recommendations or similar information included in the assurance report, and the wording used shall make it clear that findings, recommendations or similar information is not intended to detract from the practitioner's conclusion.

### **3.3.2 Assurance Report Content**

The assurance report shall include at a minimum the following basic elements: (ISAE 3000, par. 69).

- (a) A title that clearly indicates the report is an independent assurance report.
- (b) An addressee.
- (c) An identification or description of the subject matter information and, when appropriate, the underlying subject matter. In the case of a direct engagement, this may be reflected in the description of the findings and basis for the practitioner's conclusion in the assurance report. When the auditor's conclusion is worded in terms of a statement made by the measurer or evaluator, that statement shall be appended to the assurance report, reproduced in the assurance report or referenced therein to a source that is available to the intended users.
- (d) Identification of the criteria.
- (e) Where appropriate, a description of any significant, inherent limitations associated with the measurement or evaluation of the underlying subject matter,
- (f) When the applicable criteria are designed for a specific purpose, a statement alerting readers to this fact and that, as a result, the subject matter information may not be suitable for another purpose.
- (g) A statement to identify the responsible party and the measurer or evaluator if different, and to describe their responsibilities and the practitioner's responsibilities.

- (h) A statement that the engagement was performed in accordance with this ISAE or, where there is a subject matter specific ISAE, that ISAE.
- (i) A statement that the firm of which the practitioner is a member applies ISQC 1, or other professional requirements, or requirements in laws or regulations that are at least as demanding as ISQC 1. ISQC 1 undoubtedly attaches great importance to the quality of the audit. Audit quality is very important aspect which is not directly observable. (Randal J. Elder, Suzanne Lowensohn, and Jacqueline L. Reck, 2015)
- (j) A statement that the auditor complies with the independence and other ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by laws or regulations, that are at least as demanding as Parts A and B of the IESBA Code related to assurance engagements.
- (k) An informative summary of the work performed as the basis for the practitioner's conclusion, recognizing in the case of a limited assurance engagement, that an appreciation of the nature, timing, and extent of procedures performed is essential to understanding the assurance conveyed by the practitioner's conclusion. In a limited assurance engagement the summary of the work performed shall 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.
- (l) The auditor's conclusion:
  - the conclusion shall inform the intended users of the context in which the practitioner's conclusion is to be read. - the conclusion shall be expressed in the form of an opinion. - In a limited assurance engagement, the conclusion shall be expressed in a form that conveys that, 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. - Where the practitioner expresses a modified conclusion, the assurance report shall contain a clear description of the matter(s) giving rise to the modification.
- (m) The auditor's signature.
- (n) The date of the assurance report. The assurance report shall be dated no earlier than the date on which the practitioner has obtained the evidence on which the practitioner's conclusion is based, including:
  - In the case of an attestation engagement, evidence that those with the recognized authority have asserted that they have taken responsibility for the subject matter information; and - In the case of direct engagement, receipt of the written representation required by paragraph.
- (o) The location in the jurisdiction where the auditor practices.

### 3.3.3 Assurance Report Prescribed by Laws or Regulations

If the practitioner is required by laws or regulations to use a specific layout or wording of the assurance report, the assurance report shall refer to this or other ISAEs only if the assurance report includes, at a minimum, each of the elements identified in paragraph

### 3.4 Documentation

The auditor shall prepare documentation about engagement in time. The documentation is basis that provides a record of the basis for the assurance report that is sufficient and appropriate to enable an experienced auditor, having no previous connection with the engagement, to understand:

- (a) The nature, timing and extent of the procedures performed to comply with relevant ISAEs and applicable legal and regulatory requirements; (b) The results of the procedures performed, and the evidence obtained; and (c) The significant matters

arising during the engagement, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

If the auditor identifies information that is inconsistent with the practitioner's final conclusion regarding a significant matter, the practitioner shall document how the practitioner addressed the inconsistency. (ISAE 3000, par. 79-83)

### Conclusions

The subject of our review was the ISAE 3000, which has undergone a review process to achieve transparency in the provision of assurance services. We examined and analyzed this standard. We focused our attention only on selected areas of the revised ISAE 3000 to present the changes brought about by the review process. The Auditor of the Assurance Services accepts the assurance engagement if he has sufficient knowledge of the engagement. When designing and executing the contract, it exercises professional judgment to identify and eliminate criteria that would lead it to reject the contract.

The auditor providing the assurance services are presented his findings and conclusions in the assurance report, which must contain the relevant information about all the inherent facts accompanying the assurance engagement. The basic elements of the assurance report have expanded with supplementary and explanatory information.

We believe that the extensibility of then elements in the assurance report will allow the user of the assurance report to understand the content not only of the security report but also of the assurance service performance.

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