



March 2020

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# CONSULTATION PAPER AND IMPACT ASSESSMENT

## Proposal to adopt (in the UK) ISAE 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

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### Objective

The Financial Reporting Council (FRC) proposes, subject to consultation, to adopt International Standard on Assurance Engagements (ISAE) 3000 in the UK. ISAE 3000 was developed by the International Auditing and Assurance Standard Board (IAASB) and contains requirements and application and other explanatory material specific to reasonable and limited assurance attestation engagements, other than audits or reviews of historical financial information<sup>1</sup>. A small number of edits are proposed to reflect that in the UK assurance practitioners are subject to the FRC's Ethical Standard and the ethical pronouncements of their professional body, and that the FRC is not adopting the other, subject matter specific, ISAEs issued by the IAASB. No edits are proposed that would result in non-compliance with the IAASB's requirements in ISAE 3000.

The FRC is proposing that compliance with ISAE (UK) 3000 will be mandatory only for such types of engagement the FRC specifies. These will ordinarily be particular engagements for which there is a requirement in law or regulation for an assurance report to be provided by an auditor or other assurance practitioner, or where a clear need has been identified to serve the public interest. Voluntary application to other assurance engagements will be permitted unless a subject matter specific standard relevant to the engagement has been issued by the FRC, in which circumstances that subject matter specific standard is required to be complied with.

With this approach, the FRC does not believe that adoption of the standard will result in costs for business beyond those necessary to fulfil legal or regulatory reporting requirements and the expectations of stakeholders. Currently there are no such assurance engagements required by law or regulation, but it is anticipated that this may change in the foreseeable future in light of recent reviews and recommendations for the scope of auditors' responsibilities and other developments. As the standard is designed for general application, the FRC will review the need for further subject matter specific guidance to assist with the application of the standard to specific types of engagement for which ISAE (UK) 3000 is mandated to be applied.

### Invitation to comment

The FRC is requesting comments on this Consultation Paper by 5pm on Friday 22 May 2020. Comments are invited in writing on all aspects of the Consultation Paper. In particular, comments are sought in relation to questions 1-5 as presented below.

Comments on the Consultation Paper should be sent to:

Keith Billing  
Project Director  
Financial Reporting Council  
E-mail: [AAT@frc.org.uk](mailto:AAT@frc.org.uk)

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<sup>1</sup> In the UK, International Standards on Auditing (UK) (ISAs (UK)) apply to audits of financial statements; International Standard on Review Engagements (UK and Ireland) 2410 applies to review of interim financial information by the independent auditor of the entity.

## **Introduction**

1. The Financial Reporting Council (FRC) is committed to acting as a proportionate and principles-based regulator, and balances the need to minimise the impact of regulatory requirements on business, while working to support the delivery of high-quality audit and assurance work to maintain investor and wider stakeholder confidence.
2. The FRC is consulting on the adoption of ISAE 3000 with a small amount of adaptation to reflect that in the UK assurance practitioners are subject to the FRC's Ethical Standard and the ethical pronouncements of their professional body, and that the FRC is not adopting the other, subject matter specific, ISAEs issued by the IAASB. No changes are proposed that would result in non-compliance with the IAASB's requirements in ISAE 3000.
3. ISAE 3000 is a principles based standard that is designed to be capable of being applied effectively to a broad range of subject matters. Requirements and guidance are included to cover both reasonable assurance and limited assurance attestation engagements. Attestation engagements are those in which a party other than the practitioner measures or evaluates the underlying subject matter against criteria. The practitioner's conclusion addresses whether the subject matter information is free from material misstatement. ISAE 3000 could, with adaptation and supplementation as necessary in the circumstances, be applied also to reasonable and limited assurance direct engagements, in which the practitioner measures or evaluates the underlying subject matter against the criteria.
4. ISAE 3000 was first issued in 2003 and revised in 2013. We believe it is now in the public interest for this standard to be adopted by the FRC. It will provide a standard for the conduct of assurance engagements that the FRC may be requested to regulate in response to the outcome of recent and future reviews of the scope of auditors' responsibilities. Although the FRC has not previously adopted ISAE 3000, we have used it as the basis for the development of other specific assurance standards, including the Client Asset Assurance Standard. Based on that experience we are satisfied that ISAE 3000 provides an appropriate standard for the conduct of other assurance engagements.

## **Reasonable and limited assurance engagements**

5. A reasonable assurance engagement is one in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion. The practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria.
6. A limited assurance engagement is one in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.

## **Proposed scope of application**

7. We propose to mandate compliance with ISAE (UK) 3000 only for certain types of engagement where a public interest benefit has been identified. These will ordinarily be particular engagements for which there is a requirement in law or regulation for an assurance report to be provided by an auditor or other assurance practitioner, or where a clear need has been identified to serve the public interest. Currently there are no such assurance engagements required by law or regulation but it is anticipated that this may change in the foreseeable future in light of recent reviews and recommendations for the scope of auditors' responsibilities and other developments.
8. As the standard is designed for general application, the FRC will review the need for further subject matter specific guidance to assist with the application of the standard to specific types of engagement for which ISAE (UK) 3000 is mandated to be applied.

## **Proposed effective date**

9. It is proposed that the effective date should be for assurance reports dated on or after 15 September 2020. While we recognise this will be a relatively short time after the standard is expected to be finalised, application of the standard will be mandatory only if specific mandatory assurance reporting requirements are established by that date. Currently there are no such assurance reporting requirements, but we believe it is appropriate to be prepared for the possibility that such requirements may come into effect in light of recent reviews and recommendations for the scope of auditors' responsibilities and other developments.

## **Conforming amendments to other FRC standards**

10. When the standard is finalised, conforming amendments will be made at the same time to the scope of FRC's Ethical Standard and ISQC (UK) 1 to identify that they apply for engagements undertaken in compliance with ISAE (UK) 3000.

## **Consultation questions**

- Q1. Do you agree with the proposed adoption of ISAE 3000? If not, please explain why.**
- Q2. Do you agree that ISAE (UK) 3000 should be mandated only for certain specific types of assurance engagement as described above, with voluntary application permitted for other assurance engagements; or should it be mandated for all assurance engagements for which the FRC has not issued specific performance standards? If the latter, please explain why.**
- Q3. Do you agree with the proposed adaptations to the text highlighted in the exposure draft? If not, please explain why and describe the changes you would wish to see.**
- Q4. Do you believe any further adaptations should be made? If yes, please explain them.**
- Q5. Do you agree with the proposed effective date for assurance reports dated on or after 15 September 2020? If not, please explain what date would be appropriate.**

## **Impact Assessment**

The FRC does not believe that the adoption of ISAE 3000 will result in significant additional costs for business beyond those necessary to fulfil legal or regulatory reporting requirements and the expectations of stakeholders. This is because the FRC is proposing to mandate compliance with the standard only where there is a requirement in law or regulation for an assurance report to be provided by an auditor or other assurance practitioner, or where a clear need has been identified to serve the public interest. Such requirements for an assurance report will normally indicate the level of assurance to be obtained by the practitioner - 'reasonable' or 'limited' – either explicitly or by the nature of the conclusion/opinion the practitioner is required to give. This standard will provide clarity as to what is meant by a reasonable or limited assurance engagement and the related requirements.

As the standard is designed for general application, the FRC will review the need for further subject matter specific guidance to assist with the application of the standard to specific types of engagement for which ISAE (UK) 3000 is mandated to be applied.

Assurance practitioners are already free to use the international version of the standard (ISAE 3000 as issued by the IAASB). There should be no significant impact on costs for any such engagements where ISAE (UK) 3000 becomes the applicable standard as we are not adding any additional requirements to the international standard.

**Financial Reporting Council**

**March 2020**

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

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