



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **2**

Meeting Date: 29 November 2016

Subject: ASAE 3100 Compliance Engagements – Comments on Disposition and Approval of revised ASAE 3100

Date Prepared: 15 November 2016

Action Required

For Information Purposes Only

Agenda Item Objectives

AUASB to consider:

- comments received and proposed disposition paper on ED 04/16 ASAE 3100 and recommended changes; and
- approval of revised ASAE 3100 (marked up) subject to internal QA processes being completed and final review by the Chair.

Background

1. ASAE 3100 was issued in 2008 and a post-implementation survey was conducted in 2012. The results of that survey identified some matters to be addressed in any future revisions to ASAE 3100.
2. The NZAuASB also completed a post-implementation survey for SAE 3100 in April 2015 and any matters raised will be addressed by the NZAuASB in their revision of SAE 3100 and considered by the AUASB in the revision of ASAE 3100 to ensure consistency.
3. The AUASB approved a project plan to revise ASAE 3100 at the AUASB meeting in February 2015.
4. A project advisory group (PAG) was formed in March 2015 to advise the AUASB TCG specifically on the subject matter and issues encountered in practice with compliance engagements. Four project advisory (PAG) meetings were held in the 2015 calendar year.
5. A PAG meeting was held on 22 March 2016 to discuss with the PAG suggested changes made by the Board to ED ASAE 3100 at the December 2015 and February 2016 meetings.
6. A PAG meeting was held on 14 July 2016 to discuss the outcomes of the June AUASB board meeting and to seek input on the final draft of the ED XX ASAE 3100. The feedback from this PAG meeting is reflected in the final draft ED that was presented to 26 July 2016 meeting.
7. The OBPR process was completed on 15 August 2016 and clearance from OBPR that no RIS was required was received on 17 August 2016.

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8. ED 04/16 ASAE 3100 was further discussed and considered at the 26 July AUASB meeting and further suggested changes were agreed by the Board. ED 04/16 ASAE 3100 was approved for exposure at an out of session vote by the Board on 16 August 2016. ED 04/16 was exposed on 22 August for a 60 day comment period ending on 19 October 2016. The AUASB received a high level update on progress of submissions at the 25 October 2016 meeting.
9. Seven submissions were received on ED 04/16 from the firms, the accounting bodies and ACAG. Detailed comments on disposition and submission letters are included as attachments to this BMSP.

Matters to Consider

Part A – General

1. Key comments for Board consideration:

1.1 CPA Point 1 – Use of the Term Compliance Framework

We consider that the term “compliance framework” is not appropriate for the proposed definition provided and will be misunderstood. A plain English understanding of the term “compliance framework” would typically be a reference to the legislation, regulation and other requirements which make up the compliance requirements, effectively the criteria in a compliance engagement. This meaning does not align with the definition of compliance framework in ED 04/16 being: “*A framework adopted by the entity, which is designed to ensure that the entity achieves compliance, and includes governance structures, programs, processes, systems, controls and procedures*”.....

AUASB Technical Group (ATG) Comments on Disposition

The term ‘compliance framework’ is used and applied in extant ASAE 3100 and the glossary, and is adequately defined for the purposes of this ASAE to be clear as to its meaning and application in revised ASAE 3100.

The use of this definition within the context of this ASAE is much broader than just “controls” or “systems of controls”. It encapsulates a broad understanding by the assurance practitioner of the compliance culture/environment of the entity which includes governance structures, programs, processes, systems and controls which the assurance practitioner.

On this basis the ATG recommend retaining the term “compliance framework” in the revised ASAE 3100.

The Board to advise whether they agree with the proposed disposition on this matter?

1.2 CPA Point 2 - Compliance Framework as a Subject Matter

The manner in which the term compliance framework, meaning controls as discussed above, is used in the standard suggests that controls are included in the subject matter of compliance engagements. However the subject matter in these engagements is the compliance activities to meet the compliance requirements, not the controls over those compliance activities. We consider that the subject matter of a compliance engagement relates to compliance with requirements only and not controls over compliance.....

ATG Comments on Disposition

The concept of a “Compliance Framework’ is applied primarily in a compliance engagement in the planning phase and when obtaining an understanding of the compliance activity and other engagement circumstances. By understanding the compliance framework and its key elements: governance structures, programs, processes, systems, controls and procedures the assurance practitioner has a more in depth understanding of areas where the risks of non-compliance are likely to arise (para 32L(b) and 32R(b)) and respond to these appropriately. The ‘compliance framework’

refers to the broader governance/control environment an entity has around compliance activities and is therefore important to the assurance practitioners understanding of the entity and the environment under which compliance activities are undertaken. This understanding is required for the assurance practitioner to perform their risk assessment as they would under any assurance engagement.

This concept is currently applied in extant ASAE 3100 and there does not appear to have been any issues raised previously with its application in practice. The extant ASAE 3100 is not 'broken' and the objective of the revision was primarily to clarify the standard and bring it into line with revised ASAE 3000.

On this basis the ATG recommend retaining the concept of "Compliance Framework" in revised ASAE 3100.

The Board to advise whether they agree with the proposed disposition on this matter?

1.3 CPA Point 3 - Suitable Criteria

We do not consider that the phrase "evaluated by the suitable criteria" which is used throughout ED 04/16, after compliance requirements, is useful or communicates any useful meaning, as paragraph 9 states "the criteria may be the compliance requirements, or a subset thereof" anyway. Consequently, we consider that it simply serves to complicate the proposed standard. Compliance requirements are the criteria for a compliance engagement and whilst they may be broken down into greater detail in order to test the compliance activities, we do not see how repeated use of this phrase aids clarity.....

ATG Comments on Disposition

The concepts of 'compliance requirements' and suitable 'criteria' were discussed at length by the Board throughout the development of ED 04/16. The draft ED 04/16 presented to the Board in Dec 15 was drafted excluding the phrase "evaluated by the suitable criteria" and the Board made a decision to reinstate this terminology as both concepts of "compliance requirements" and "criteria" are relevant in a compliance engagement. This position was also supported by the PAG and is consistent with extant ASAE 3100. A final decision was made by the Board at the February 2016 meeting to retain both terms in the ED 04/16 to provide a clearer understanding as to the application and objective of a compliance engagement.

This reflected that the "compliance requirements" being what the entity has to comply with and the criteria as the subset, (or may be the same as the compliance requirements or even processes or procedures) of the requirements being what the assurance practitioner needs to consider in making their determination and drawing their conclusion about the entities compliance.

Para 9 states "the criteria may be the compliance requirements, or a subset thereof" however this may not always be the case therefore the need to retain both terms in the revised ASAE 3100.

On this basis the ATG recommend retaining the wording "evaluated by the suitable criteria" in revised ASAE 3100.

The Board to advise whether they agree with the proposed disposition on this matter?

2. All other comments received and proposed disposition

The AUASB Technical Group has considered all other comments in the detailed comments received and proposed disposition paper as attached.

In Progress

1. The final internal quality assurance process needs to be completed and ongoing liaison with NZAuASB to ensure consistency in the underlying ASAE 3100 and SAE 3100 standards is maintained.

Part B – NZAuASB

1. Draft ED SAE 3100 (Revised) is based on ED 04/16 ASAE 3100, with amendments for New Zealand examples and ethical references. The New Zealand revised SAE 3100 does not include the

equivalent of para 38 prohibiting direct assistance (this is consistent with harmonisation differences across the suite of New Zealand and Australian standards).

2. The NZAuASB ED comment period closes on 22 November 2016. Proposed comments on disposition will go to the 8 December 2016 meeting for consideration. The AUASB will be in attendance at this meeting so as to understand the Boards view on any comments or suggested changes.
3. The AUASB will continue to liaise with the NZAuASB on the outcomes from both Board meetings, and any impacts on the final revised standards ASAE 3100 / SAE 3100 to ensure in so far as is practical they are consistent.

AUASB Technical Group Recommendations

The AUASB to consider:

- comments received and proposed disposition paper on ED 04/16 ASAE 3100 and recommended changes; and
- approval of revised ASAE 3100 (marked up) subject to internal QA processes being completed and final review by the Chair.

Material Presented

Agenda Item 2	AUASB Board Meeting Summary Paper
Agenda Item 2(a)	ASAE 3100 Comments Received and Proposed Disposition
Agenda Item 2(b)	ASAE 3100 <i>Compliance Engagements</i> (marked up)
Agenda Item 2.1	KPMG
Agenda Item 2.2	Ernst & Young
Agenda Item 2.3	Australasian Council of Auditors-General
Agenda Item 2.4	CPA Australia Ltd
Agenda Item 2.5	Chartered Accountants Australia New Zealand
Agenda Item 2.6	PWC
Agenda Item 2.7	Deloitte

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Consider and approve comments on disposition and final revised ASAE 3100.	Feedback and approval of revised ASAE 3100.	AUASB	29 Nov 2016	Pending
