



The Chairman  
Auditing and Assurance Standards Board  
PO Box 204,  
Collins Street West  
Melbourne Victoria 8007  
Australia

Our ref KPMG submission ED 3100  
Compliance Engagements.  
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17 October 2016

Dear Chairman

### **AUASB Exposure Draft (ED), 04/16 on ASAE 3100 *Compliance Engagements***

We are pleased to have the opportunity to respond to the ED 04/16, ASAE 3100 *Compliance Engagements* issued by the Australian Auditing and Assurance Standards Board (AUASB).

This letter represents KPMG Australia's views.

#### **Overarching comments**

Overall, KPMG Australia is very supportive of the revised requirements and additional application and other explanatory material in the Exposure Draft. The key comments we wish to highlight to the AUASB are shown below.

#### **1. Definitions: the term "criteria" Paragraph 17 (g)**

The term **criteria** isn't clearly differentiated from **compliance requirement**. Criteria is presented as similar to compliance requirement: *the specific requirements established in law versus the legislation used to evaluate whether compliance requirements have been met*. Appendix 3 "Examples: Nature of Assurance Engagements on Compliance" makes it easier to understand by illustrating with an example. We recommend that **compliance requirement** be phrased as the overarching Act, Standard, Regulation, or Section and the **criteria** is the specific requirements contained or listed in the Act, Standard, Regulation or Section.

#### **2. Use of the term "Fairly stated" in an attestation engagement assurance report**

We note that Appendix 6: Example 3 Reasonable Assurance Report on ABC's Statement of Compliance (Attestation Engagement) uses the term "fairly stated" when concluding on ABC's Statement. The term "fairly stated" relates to the "fair presentation framework" and the use in this example is not a technical application but rather applied as a commonly understood plain English phrase such as in the meaning of "adequately" or "reasonably".

We suggest one of the following two options:

1. Retain the example wording of "*fairly stated*" because we believe that intended users are able to understand the assurance practitioner's conclusion when phrased in this manner and ASAE 3150 uses a similar phrase "*fairly presented*" in its assurance report examples. We do however suggest you include a sentence in the guidance paragraphs to indicate that the AUASB had considered whether this was a technical application of the fair presentation



framework and although it is not a strict technical application, you are comfortable to use it with respect to the responsible party's "Statement" to achieve understandability. This will avoid each practitioner challenging whether it's an appropriate use of this phrase; and/or

2. Use alternative wording such as "properly prepared and presented".

**Other comments**

We provide further detailed observations as follows:

- Appendix 1: other comments for the AUASB's consideration.
- Appendix 2: responses to the specific questions listed in the AUASB Exposure Draft.

Please contact me on (02) 9335 7630 if you wish to discuss any of the comments in this letter.

Yours faithfully

A handwritten signature in black ink, appearing to read 'M McGrath'.

Martin McGrath  
Partner  
KPMG

## Appendix 1 – Other comments for AUASB’s further consideration

	Paragraph(s)	Issue(s) noted	Recommendation / suggestion on wordings to add and remove.
1	17 (c)	Definition inconsistent with AUASB glossary (Glossary) definition of ‘Compliance engagement’. The fuller definition in the Glossary states that its source is ASAE3100.	We suggest retaining the fuller definition from the Glossary in ASAE 3100, or updating the Glossary section for consistency. Alternatively if the fuller description is not included in ASAE 3100, we suggest to delete the reference to ASAE 3100 as the source of the definition in the Glossary.
3	23, 24 (b) and A15 A16	<ul style="list-style-type: none"> <li>The practitioner identifies, selects or develops the criteria</li> <li>Criteria may need to be amended during the engagement.</li> </ul>	<ul style="list-style-type: none"> <li>If we’re <i>developing</i> the criteria at the time of the engagement, we query how the responsible party can demonstrate compliance with the criteria over the period subject to assurance and therefore meet the overall compliance requirement? How could the responsible party have designed an appropriate compliance activity to meet the criteria if the criteria were not known?</li> <li>Similar concept if we amend the criteria during the engagement per A16. How could the overall compliance requirement be met?</li> </ul>
5	A6	Independence – A6 implies consulting services with respect to the compliance framework are <b>likely to</b> impact the practitioner’s independence and <b>likely to</b> preclude acceptance. There are safeguards that can be applied to be able to deliver an engagement such as pre-assurance work like gap analysis that is an advisory style service that provides suggestions or observations. This type of engagement would not contemplate designing or implementing the compliance framework or making management decisions and therefore should not impact independence.	Change to “ <b>may</b> impact on the audit practitioner’s independence and <b>may</b> preclude acceptance of the engagement”. This allows the practitioner to evaluate their independence and whether application of a safeguard would manage the risk to an acceptable level.
6	A33	Third party outsourced service providers.	We recommend more discussion about how to obtain evidence on compliance with obligations when the responsible party uses an external third party outsourced service provider, as this is a common scenario.
7	Appendix 5	Missing practitioners’ responsibility to apply	We recommend reference to ASQC 1 in the practitioner’s responsibilities

	Engagement letters – Examples 1 to 3	ASQC 1.	section to be consistent with ASAE 3150 and 3402.
8	Appendix 6 Assurance reports on compliance – Examples 1 to 3	<ul style="list-style-type: none"> <li>• Inconsistent with new report format in ASA 700 <i>Forming an opinion and reporting on a financial report</i>.</li> <li>• Repeated statement in the inherent limitation section.</li> </ul>	<p>We recommend:</p> <ul style="list-style-type: none"> <li>• A header “<i>Basis for conclusion</i>” after the ‘<i>Conclusion</i>’ paragraph.</li> <li>• To move the following statements from <i>Assurance Practitioner’s Responsibilities</i> to the new header “<i>Basis for conclusion</i>”.</li> </ul> <p>“We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3100 <i>Compliance Engagements</i> issued by the Auditing and Assurance Standards Board. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.</p> <ul style="list-style-type: none"> <li>• To remove the following statement in the inherent limitation section to make it simple.</li> </ul> <p>“...on ABC’s compliance, in all material respects, with the [compliance requirements] as evaluated by the [suitable criteria], at a specified date...”</p>
9	Appendix 7 Modified assurance reports on compliance – example 3	Inconsistent Disclaimer of Opinion with ASA 705 <i>Modifications to the Opinion in the Independence Auditor’s Report</i> .	<p>We suggest below wording in <u>underline</u></p> <p><u>“We do not express an opinion on ABC’s compliance with the [compliance requirements] because of....”</u></p>

## **Appendix 2 – KPMG responses to the specific questions listed in the AUASB Exposure Draft**

1. *Have applicable laws and regulations been appropriately addressed in the proposed standard?*  

We believe applicable laws and regulations have been appropriately addressed.
2. *Are there any references to relevant laws or regulations that have been omitted?*  

We are not aware of any references to relevant laws or regulations that have been omitted.
3. *Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?*  

We are not aware of any laws or regulations that may prevent or impede application of the proposed standard or may conflict with the proposed standard.
4. *Are the considerations for conducting a direct engagement adequately differentiated from an attestation engagement?*  

We believe the considerations for conducting a direct engagement are adequately differentiated from an attestation engagement. It would be useful to have one of the attestation examples in the appendices illustrate the alternative conclusion as suggested in paragraph 16 (a), even if by footnote.
5. *Are the procedures required for limited and reasonable assurance appropriate and adequately distinguished?*  

We believe the procedures required for limited and reasonable assurance are appropriate and adequately distinguished.
6. *What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of compliance engagements?*  

We do not anticipate any significant incremental costs to auditors and the business community arising from compliance with the revised requirements of this proposed standard.

There is however an impact with respect to liaising with regulators who issue “prescribed” reporting templates that do not apply the principles and terminology of the ASAEs. It is challenging for practitioners when a report prepared under the requirements of the Standards is rejected. Negotiations are required with regulators to amend their prescribed reports to achieve compliance with the Standards.

We encourage the Board to consider how the changes to these Standards can be communicated to regulatory bodies, such that their prescribed reports can be adjusted to comply with the requirements of the revised Standards.
7. *Are there any other significant public interest matters that constituents wish to raise?*  

No, there are no other significant public interest matters we wish to raise.