

EXPOSURE DRAFT

**ED XX/15**  
(December 2015)

# Proposed Standard on Assurance Engagements ASAE 3100 *Compliance Engagements*

Issued for Comment by the **Auditing and Assurance Standards Board**

Draft

## DISCLAIMER

This document contains draft proposals to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions and/or proposals to be contained in a published Exposure Draft or Auditing Standard. No responsibility is taken by the AUASB for the results of reliance, actions or omissions to act on the basis of any information contained in this document (including appendices), or for any errors or omissions in it.



**Australian Government**

**Auditing and Assurance Standards Board**

## **Commenting on this Exposure Draft**

Comments on this Exposure Draft should be forwarded so as to arrive by no later than . Comments should be addressed to:

The Chairman  
Auditing and Assurance Standards Board  
PO Box 204, Collins Street West  
Melbourne Victoria 8007 AUSTRALIA  
E-mail: [edcomments@auasb.gov.au](mailto:edcomments@auasb.gov.au)

A copy of all non-confidential submissions will be placed on public record on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

## **Obtaining a Copy of this Exposure Draft**

This Exposure Draft is available on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au)

## **Contact Details**

Auditing and Assurance Standards Board  
Level 7, 600 Bourke Street  
Melbourne Victoria 3000 AUSTRALIA

Phone: (03) 8080 7400  
Fax: (03) 8080 7450  
E-mail: [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)

**Postal Address:**  
PO Box 204, Collins Street West  
Melbourne Victoria 8007 AUSTRALIA

## **COPYRIGHT**

© 2015 Auditing and Assurance Standards Board (AUASB). The text, graphics and layout of this Exposure Draft are protected by Australian copyright law and the comparable law of other countries. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source as being the AUASB.

Requests and enquiries concerning reproduction and rights for commercial purposes should be addressed to the Executive Director, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Melbourne, Victoria 8007 or sent to [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au). Otherwise, no part of this Exposure Draft may be reproduced, stored or transmitted in any form or by any means without the prior written permission of the AUASB except as permitted by law.

ISSN 1030-603X

**CONTENTS**

PREFACE

AUTHORITY STATEMENT

CONFORMITY WITH INTERNATIONAL STANDARDS ON ASSURANCE ENGAGEMENTS

	<i>Paragraphs</i>
<b>Application</b> .....	1
<b>Operative Date</b> .....	2
<b>Introduction</b>	
Scope of this Standard on Assurance Engagements .....	3-14
<b>Objective</b> .....	15-16
<b>Definitions</b> .....	17
<b>Requirements</b>	
Applicability of ASAE 3000 .....	18
Ethical Requirements .....	19
Acceptance and Continuance .....	20-26
Quality Control .....	27
Professional Scepticism, Professional Judgement and Assurance Skills and Techniques .....	28
Planning and Performing the Engagement .....	29-39
Obtaining Evidence .....	40-49
Work Performed by an Assurance Practitioner’s Expert .....	50
Work Performed by Another Assurance Practitioner or a Responsible Party’s or Evaluator’s Expert, or an Internal Auditor .....	51
Evaluation and Communication of Non-Compliance Deficiencies and Breaches .....	52-53
Written Representations .....	54
Subsequent Events .....	55
Forming the Assurance Conclusion .....	56-58
Preparing the Assurance Report .....	59-66
Other Communication Responsibilities .....	67-69
Documentation .....	70-71
<b>Application and Other Explanatory Material</b>	
Application .....	A1
Introduction .....	A2-A5
<b>Definitions</b>	
Applicability of ASAE 3000 .....	
Ethical Requirements .....	A6
Acceptance and Continuance .....	A7-A20

**Proposed Standard on Assurance Engagements ASAE 3100**  
*Compliance Engagements*

---

Planning and Performing the Engagement .....A21-A33

Obtaining Evidence .....A34-A36

Work Performed by an Assurance Practitioner’s Expert.....A37

Work Performed by Another Assurance Practitioner or a Responsible Party’s or  
Evaluator’s Expert, or an Internal Auditor .....A38-A40

Evaluation and Communication of Non-Compliance .....A41-A42

Written Representations .....A43-A44

Subsequent Events.....A45-A46

Forming the Assurance Conclusion

Preparing the Assurance Report .....A47-A58

Other Communication Responsibilities.....A59-A60

Documentation .....A61

Appendix 1: Roles and Responsibilities – Direct and Attestation Compliance Engagements

Appendix 2: Nature of Assurance Engagements on Compliance

Appendix 3: Standards Applicable to Engagements on Compliance

Appendix 43: Example Engagement Letter

Appendix 54: Example Assurance Reports on Compliance

Appendix 65: Example Modified Reasonable Assurance Reports on Compliance

## PREFACE

### Reasons for Issuing ED XX/15

The AUASB issues exposure draft ED XX/15 of proposed Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* pursuant to the requirements of the legislative provisions explained below.

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 227B of the ASIC Act, the AUASB may formulate assurance standards for other purposes.

### Main Proposals

This proposed Standard on Assurance Engagements establishes requirements and provides application and other explanatory material regarding the conduct of and reporting on assurance engagements on compliance. The standard replaces Standard on Assurance Engagements ASAE 3100 *Compliance Engagements*, issued by the AUASB in July 2008 and last revised in October 2008. This Standard on Assurance Engagements facilitates conformity with current AUASB Standards and revised ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued in June 2014. The standard reflects best practice in compliance engagements and clarifies how to scope, conduct and report on an assurance engagement on compliance, to ensure that assurance engagement quality is maintained and where necessary improved.

### Proposed Operative Date

It is intended that this proposed Standard on Assurance Engagements will be operative for assurance engagements commencing on or after 1 July 2016 with early adoption permitted.

### Main changes from existing ASAE 3100 *Compliance Engagements* (September 2008)

The main differences between this proposed Standard on Assurance Engagements and the Standard on Assurance Engagements that it supersedes, ASAE 3100 *Compliance Engagements* (September 2008), are included in the Tables of Differences provided as an attachment to this Exposure Draft.

### Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of ASAE 3100 *Compliance Engagements* by no later than **XX December**~~October~~ 2015. The AUASB is seeking comments from respondents on the following questions:

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there 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?
4. What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of compliance engagements?
5. Are there any other significant public interest matters that constituents wish to raise?<sup>[CG1]</sup>

**Proposed Standard on Assurance Engagements ASAE 3100**  
*Compliance Engagements*

---

The AUASB prefers that respondents express a clear opinion on whether the proposed Standard on Assurance Engagements, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Standard on Assurance Engagements.

Draft

### **AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) formulates this Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

This Standard on Assurance Engagements is to be read in conjunction with ASA 100 *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the AUASB Standards are to be understood, interpreted and applied and ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, which provides the overarching requirements for all assurance engagements other than those engagements relating to historical financial information.

Draft

### **Conformity with International Standards on Assurance Engagements**

This Standard on Assurance Engagements has been made for Australian public interest purposes and accordingly there is no equivalent International Standard on Assurance Engagements (ISAE) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Draft

# STANDARD ON ASSURANCE ENGAGEMENTS ASAE 3100

## *Compliance Engagements*

### **Application**

1. This Standard on Assurance Engagements applies to assurance engagements to provide an assurance report on an entity's compliance with requirements as ~~evaluated against~~ ~~measured by~~ the suitable criteria.

### **Operative Date**

2. This Standard on Assurance Engagements is operative for assurance engagements commencing on or after 1 July 2016, with early adoption permitted prior to this date.

### **Introduction**

#### **Scope of this Standard on Assurance Engagements**

3. This Standard on Assurance Engagements (ASAE) deals with assurance engagements undertaken by an assurance practitioner to provide an assurance report on whether an activity at an entity as evaluated against the suitable criteria achieved the intended outcomes, expressed as compliance in all material respects, throughout the period.
4. This ASAE addresses assurance engagements on compliance of an activity:
  - (a) evaluated against the achievement of either overall ~~compliance objectives~~ or ~~specific compliance requirements~~ ~~objectives~~;
  - (b) providing a limited or reasonable assurance conclusion;
  - (c) for either restricted use, by ~~those charged with governance of the entity~~ ~~e-Government~~ or specified third parties, or to be publicly available; and
  - (d) either based on an attestation engagement or a direct engagement.
5. Agreed-upon procedures engagements, where procedures are conducted and factual findings are reported but no conclusion is provided, and consulting engagements, for the purpose of providing advice, on compliance are not assurance engagements and are not dealt with in this ASAE. Agreed-upon procedures engagements are addressed under Standard on Related Services, ASRS 4400.<sup>1</sup>

#### *Nature of a Compliance Engagement*

6. Compliance engagements are conducted in both the private and public sector, in ~~either~~ ~~which~~ case the engaging party will usually be the entity responsible for the compliance activity which is subject to the compliance engagement. In these circumstances terms of engagement would be agreed with the engaging party.
7. An entity may have an obligation to comply with externally and/or internally ~~established~~ ~~imposed~~ requirements. These requirements may be established through law and regulation, contractual arrangements or internally ~~established~~ ~~imposed~~ requirements, for example company policies.

---

<sup>1</sup> See ASRS 4400 Agreed upon Procedures Engagements to Report Factual Findings.

## Proposed Standard on Assurance Engagements ASAE 3100 Compliance Engagements

---

8. The style and content of reports for compliance engagements are most commonly not prescribed however in a limited circumstances this may be the case e.g. APRA Annual Registered Superannuation Entity (RSE) compliance reports. This ASAE provides minimum requirements with respect to reporting in a compliance engagement.

### *Relationship with ASAE 3000, Other Pronouncements and Other Requirements*

9. The assurance practitioner is required to comply with ASAE 3000 and this ASAE when performing compliance engagements. This ASAE supplements, but does not replace, ASAE 3000, and expands on how ASAE 3000 is to be applied to limited and reasonable assurance compliance engagements. This ASAE applies the requirements in ASAE 3000 to attestation engagements and adapts those requirements, as necessary, to direct engagements on compliance. ASAE 3000 includes requirements in relation to such topics as engagement acceptance, planning, obtaining evidence and documentation that apply to all assurance engagements, including engagements conducted in accordance with this ASAE. The Assurance Framework, which defines and describes the elements and objectives of an assurance engagement, provides the context for understanding this ASAE and ASAE 3000.
10. Compliance with ASAE 3000 requires, among other things, that the assurance practitioner complies with relevant ethical requirements related to assurance engagements. It also requires the lead assurance practitioner to be a member of a firm that applies ASQC 1.
11. An assurance engagement performed under this ASAE may be part of a larger engagement. In such circumstances, this ASAE is relevant only to the portion of the engagement relating to assurance on compliance.
12. If multiple standards are applicable to the assurance engagement, the assurance practitioner applies, in addition to ASAE 3000, either:
- (a) if the engagement can be separated into parts, the standard relevant to each part of the engagement, including this ASAE for the part on compliance; or
  - (b) if the engagement cannot be separated into parts, the standard which is most directly relevant to the subject matter.
13. Assurance conclusions on compliance may be required by Parliament, Government or other users in conjunction with assurance conclusions on financial reports, other historical financial information, compliance **with other requirements**, controls and/or other subject matters. In these engagements the subject matter, criteria against which that subject matter is evaluated and the level of assurance sought may vary, in which case different standards will apply. Assurance reports can include separate sections for each subject matter, criteria or level of assurance in order that the different matters concluded upon are clearly differentiated.
14. A table showing the AUASB Standards to apply to compliance engagements depending on the subject matter and engagement circumstances is contained in Appendix ~~3X~~.

### **Objective**

15. The objectives of the assurance practitioner for a compliance engagement are:
- (a) to obtain limited or reasonable assurance about whether, an entity has complied in all material respects, with requirements as **evaluated** ~~measured against~~ by the suitable criteria;

**Proposed Standard on Assurance Engagements ASAE 3100**  
**Compliance Engagements**

---

- (b) to express a conclusion<sup>2</sup> through a written report on the matters in (a) above which expresses either a reasonable or limited assurance conclusion and describes the basis for the conclusion; and/or
  - (c) to communicate further as required by this ASAE and any other relevant ASAEs.
16. In conducting the assurance engagement, the objectives of the assurance practitioner under ASAE 3000<sup>3</sup> include: “to obtain either reasonable or limited assurance, as appropriate, about whether the subject matter information is free from material misstatement”. The subject matter information in a compliance engagement is the outcome of the evaluation of the compliance activity against the suitable criteria. The evaluation is conducted:
- (a) in an attestation engagement, by the responsible party or evaluator, and presented in a Statement, which addresses whether the activity achieved its compliance outcomes. The objective of the assurance practitioner is to obtain reasonable or limited assurance about whether the Statement is free from material misstatement, although the assurance practitioner’s conclusion may be expressed in terms of the activity’s compliance; or
  - (b) in a direct engagement, by the assurance practitioner and presented in the assurance report, therefore, no Statement is prepared by the responsible party or evaluator. The objective of the assurance practitioner is to obtain reasonable or limited assurance about whether the activity achieved its compliance outcomes.

**Definitions**

17. For the purposes of this Standard on Assurance Engagements, the following terms have the meanings attributed below:
- (a) Attestation engagement on compliance—A reasonable or limited assurance engagement in which a party other than the assurance practitioner, being the responsible party or evaluator, evaluates the activity’s compliance against the suitable criteria. The outcome of that evaluation is provided in a Statement, which may either be available to the intended users or may be presented by the assurance practitioner in the assurance report. The assurance practitioner’s conclusion may be phrased in terms of the activity’s compliance or the Statement of the responsible entity or evaluator.
  - (b) Criteria—The benchmarks used to measure or evaluate the underlying subject matter. The “applicable criteria” are the criteria used for the particular engagement.
  - (c) Compliance engagement—An assurance engagement to conclude on whether an activity has achieved the its compliance objectives requirements, which reflect the activity’s intended outcome/s.
  - (d) Compliance framework—~~A~~means 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.
  - ~~(e)~~—Compliance objective—The outcome which a compliance activity is seeking to achieve.
  - ~~(e)~~—
  - (f) Compliance requirement(s)—May be established externally through laws and regulations, other statutory requirements (e.g. ASIC Regulatory Guides and APRA

---

<sup>2</sup> The term conclusion also extends to include an opinion expressed in a reasonable assurance engagement.  
<sup>3</sup> See ASAE 3000, paragraph 10.

Prudential Standards), contractual arrangements, ministerial directives, industry or professional obligations or internally established such as company policies, procedures and frameworks.

- ~~(g)~~ (g) ~~Deficiency in compliance—A failure to achieve a compliance outcome in whole or in part.~~
- ~~(h)~~(g) Direct engagement on compliance—A reasonable or limited assurance engagement in which the assurance practitioner evaluates the activity’s compliance against the suitable criteria. The outcome of the assurance practitioner’s evaluation (the subject matter information) is expressed in the assurance practitioner’s conclusion.
- ~~(i)~~(h) Engaging party—The party(ies) that engages the assurance practitioner to perform the assurance engagement.
- (i) Evaluator—The party(ies) who evaluates the underlying subject matter against the criteria. The evaluator possesses expertise in the underlying subject matter.
- (j) Firm—A sole practitioner, partnership or corporation or other entity of individual assurance practitioners. “Firm” should be read as referring to its public sector equivalents where relevant.
- ~~(k)~~ (k) Intended users—The Government, Parliament, individual(s) or organisation(s), or group(s) thereof that the assurance practitioner expects will use the assurance report. In some cases, there may be intended users other than those to whom the assurance report is addressed.
- ~~(l)~~ (k) Internal audit function—A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity’s governance, risk management and internal control processes.
- ~~(m)~~(l) Intended users—The Government, Parliament, individual(s) or organisation(s), or group(s) thereof that the assurance practitioner expects will use the assurance report. In some cases, there may be intended users other than those to whom the assurance report is addressed.
- ~~(n)~~(m) Limited assurance engagement—An assurance engagement in which the assurance 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 assurance practitioner’s attention to cause the assurance practitioner to believe the subject matter information or subject matter 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 assurance practitioner’s professional judgement, meaningful. To be meaningful, the level of assurance obtained by the assurance practitioner is likely to enhance the intended users’ confidence about the subject matter information or subject matter to a degree that is clearly more than inconsequential.
- ~~(o)~~(n) Long-form report—Assurance report including other information and explanations that are intended to meet the information needs of users but not to affect the assurance practitioner’s conclusion. In addition to the matters required to be contained in the assurance practitioner’s report, as set out in **paragraph XX**, long-form reports may describe in detail matters such as:

- (i) the terms of the engagement;
- (ii) the criteria being used, such as the specific compliance **objectives**, **requirements** and **compliance** activities as designed to achieve each **compliance requirement objective**;
- (iii) descriptions of the tests that were performed;
- (iv) findings relating to the tests that were performed or particular aspects of the engagement;
- (v) details of the qualifications and experience of the assurance practitioner and others involved with the engagement;
- (vi) disclosure of materiality levels; or
- (vii) recommendations.

The assurance practitioner may find it helpful to consider the significance of providing such information to meet the needs of the intended users. As required by **paragraph XX**, additional information is clearly separated from the assurance practitioner's conclusion and worded in such a manner as make it clear that it is not intended to alter or detract from that conclusion.

~~(p)~~**(o)** **Material in the context of a compliance engagement—**

- (i) in relation to potential (for risk assessment purposes) or detected (for evaluation purposes) breaches – instance(s) of non-compliance that are significant, individually or collectively, in the context of the entity's compliance with the requirements as **evaluated**~~measured by~~ **against** the suitable criteria, and that affect the assurance practitioner's conclusion; and/or
- (ii) in relation to the compliance framework and controls – instance(s) of deficiency that are significant in the context of the entity's control environment and that may raise the compliance engagement risk sufficiently to affect the assurance practitioner's conclusion.

**(p)** **Misstatement—**A difference between the subject matter information (**compliance outcome**) and the ~~appropriate measurement or~~ evaluation of the underlying subject matter (**compliance activity**) in accordance with the criteria. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions.

**(q)** **Non-compliance—**A failure to achieve a compliance outcome in whole or in part.

**(r)** **Professional judgement—**The application of relevant training, knowledge and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.

**(s)** **Professional scepticism—**An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence.

**(t)** **Reasonable assurance engagement—**An assurance engagement in which the assurance practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the assurance practitioner's conclusion. The assurance practitioner's conclusion is expressed in a form that conveys the assurance practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria.

- (u) Representation—Statement by the responsible party, either oral or written, provided to the assurance practitioner to confirm certain matters or to support other evidence. A representation is additional to but may be provided in combination with the responsible party’s or evaluator’s Statement provided in an attestation engagement, as set out in **paragraph XX**.
- (v) Responsible party—The party responsible for the underlying subject matter, being the activity’s compliance in a compliance engagement.
- (w) **Short-form report**—Assurance report including only the matters required under **paragraph XX** of this ASAE.
- (x) Statement—The outcome in writing of the responsible party or evaluator’s evaluation of the activity’s compliance, provided to the assurance practitioner in an attestation engagement. A Statement is the subject matter information in an attestation engagement on compliance.
- (y) Subject matter information (**Compliance Outcome**)—The outcome of the ~~measurement or~~ evaluation of the underlying subject matter against the criteria. ~~In a compliance engagement,~~ The subject matter information is the Statement of the responsible party or evaluator in an attestation **compliance** engagement, or the assurance practitioner’s conclusion in a direct **compliance** engagement, providing the outcome of their evaluation.
- (z) Subject matter or underlying subject matter (**Compliance Activity**)—The ~~activity~~ that is evaluated against the suitable criteria which is seeking to achieve the compliance objectives. The processes in place to address the compliance requirement.

## Requirements

### Applicability of ASAE 3000

18. The assurance practitioner shall not represent compliance with this ASAE unless the assurance practitioner has complied with the requirements of this ASAE and ASAE 3000, adapted as necessary in the case of direct engagements. ASAE 3000 contains requirements and application and other explanatory material specific to attestation assurance engagements but it also applies to direct assurance engagements, adapted as necessary in the engagement circumstances.<sup>4</sup> If this ASAE makes reference to a requirement in ASAE 3000, that requirement shall be applied to both attestation and direct engagements, unless specified otherwise.

### Ethical Requirements

19. As required by ASAE 3000, the assurance practitioner shall comply with relevant ethical requirements related to assurance engagements.<sup>5</sup>

### Acceptance and Continuance

#### *Preconditions for the Assurance Engagement*

20. The assurance practitioner shall accept or continue a compliance engagement only in the circumstances required by ASAE 3000, including that the preconditions for an assurance engagement are present, unless required to accept the engagement by law or regulation.

---

<sup>4</sup> See ASAE 3000, paragraph 2.

<sup>5</sup> See ASAE 3000, paragraphs Aus 20.1 and ASA 102.

*Assessing the Appropriateness of the Subject Matter*

21. When establishing whether the preconditions for an assurance engagement as required by ASAE 3000 are present, the assurance practitioner is required to assess the appropriateness of the subject matter.<sup>6</sup> In doing so, the assurance practitioner shall determine whether activities which are to **be** evaluated are appropriate in addressing the needs of users, that is whether the compliance of those activities determines whether the outcomes being sought are achieved **if the subject matter is not appropriate**.

*Assessing the Suitability of the Criteria*

22. When establishing whether the preconditions for an assurance engagement as required by ASAE 3000 are present, the assurance practitioner shall determine the suitability of the criteria expected to be applied, whether the criteria are provided by the engaging party, as in an attestation engagement, or are to be identified, selected or developed by the assurance practitioner, as in a direct engagement, including that they exhibit the characteristics set out in ASAE 3000.<sup>7</sup> The criteria in a compliance engagement are the compliance **objectives requirements**, whether overall or specific **objectives compliance requirements**, which are to be concluded upon.

*Agreeing on the Terms of the Engagement*

23. ASAE 3000<sup>8</sup> requires the parties to the engagement to agree on the terms of the assurance engagement in writing. ~~The terms of engagement shall be agreed in writing if there is an engaging party and if there is no engaging party, the responsible party shall be advised of the terms of engagement prior to commencement of the engagement.~~ The assurance practitioner shall obtain the agreement of the responsible party, that it acknowledges and understands its responsibility:
- (a) in an attestation engagement, for evaluating the activity's compliance against the compliance **requirements objectives** and providing a written Statement regarding the outcome of that evaluation and for having a reasonable basis for the written Statement;
  - (b) for identifying suitable compliance **objectives requirements** and whether they were specified by law, regulation, contract, another party (for example, a user group or a professional body) or developed by the responsible party or assurance practitioner;
  - (c) for providing the assurance practitioner with:
    - (i) access to all information, such as records, documentation and other matters of which the responsible party is aware are relevant to the compliance outcomes of the activity;
    - (ii) additional information that the assurance practitioner may request from the responsible party for the purposes of the assurance engagement; and
    - (iii) unrestricted access to persons within the entity from whom the assurance practitioner determines it necessary to obtain evidence.
24. The terms of engagement shall identify:
- (a) the purpose of the engagement;
  - (b) whether the engagement is a reasonable or limited assurance engagement;

---

<sup>6</sup> See ASAE 3000, paragraph 24(b)(i).

<sup>7</sup> See ASAE 3000, paragraph 24(b).

<sup>8</sup> See ASAE 3000, paragraph 27.

- (c) whether the engagement is an attestation or direct engagement and, in the case of an attestation engagement, the form of the responsible party's or evaluator's evaluation of the activity's compliance or Statement and whether that Statement will be available to intended users or only referenced in the assurance report;
- (d) the **compliance** activity to be evaluated in the engagement;
- (e) the period to be covered by the engagement;
- (f) the compliance **objectives**~~requirements~~ against which the **compliance** activity will be evaluated;
- (g) the intended users of the assurance report;
- (h) the content of the assurance report, including whether it will be a short-form or long form report, including additional information such as the compliance **objectives**~~requirements~~, procedures conducted, detailed findings and recommendations **to meet the needs of the intended users**; and
- (i) any other matters required by law or regulation (**e.g. reporting all matters of non-compliance to the regulator**) to be included in the terms of engagement.

#### *Acceptance of a Change in the Terms of the Engagement*

25. If the engaging party requests a change in the terms of the engagement before the completion of the engagement, the assurance practitioner shall be satisfied that there is a reasonable justification for the change as required by ASAE 3000.<sup>9</sup> (Ref: Para. AXX)

#### *Assurance Report Prescribed by Law or Regulation*

26. If Parliament, legislation or regulation prescribe the compliance **requirements** ~~objectives~~ for evaluation ~~of the activity~~ or the form and content of the assurance report, the assurance practitioner evaluates the criteria and form and content of the assurance report. If the criteria are unsuitable or if intended users might misunderstand the assurance report, the assurance practitioner shall:
- (a) not accept the engagement unless additional explanation in the report mitigates these circumstances; or
  - (b) not include any reference within the assurance report to the engagement having been conducted in accordance with ASAE 3000 or this ASAE, if required to accept the engagement by Parliament, law or regulation.

#### **Quality Control**

27. The assurance practitioner shall implement quality control procedures as required by ASAE 3000.<sup>10</sup>

#### **Professional Scepticism, Professional Judgement and Assurance Skills and Techniques**

28. The assurance practitioner shall apply professional scepticism, exercise professional judgement and apply assurance skills and techniques in planning and performing an assurance engagement on compliance as required by ASAE 3000.<sup>11</sup> **In applying professional scepticism,**

---

<sup>9</sup> See ASAE 3000, paragraph 29.

<sup>10</sup> See ASAE 3000, paragraphs 31-36.

<sup>11</sup> See ASAE 3000, paragraphs 37-39.

the assurance practitioner shall recognise the possibility that non-compliance with the compliance requirements due to fraud could exist, notwithstanding the assurance practitioner’s past experience of the honesty and integrity of the entity’s management and those charged with governance.

**Planning and Performing the Engagement**

*Planning*

29. The assurance practitioner shall plan the engagement so that it will be performed in an effective manner as required by ASAE 3000.<sup>12</sup>

~~30. —~~

~~31. —~~ In planning the engagement, if the scope of the engagement is based on overall compliance objectives, then the assurance practitioner shall identify the compliance requirements and design procedures ~~select or develop specific compliance objectives,~~ to achieve the agreed overall compliance objectives of the engagement. ~~against which the activity outcomes can be tested~~

*Materiality*

~~32.~~30. The assurance practitioner shall consider materiality, as required by ASAE 3000,<sup>13</sup> when determining the nature, timing and extent of procedures.

~~33.~~31. The assurance practitioner shall identify any non-compliance output from an activity as material if it is fundamental-significant to the achievement of any outcome, which is reflected in the compliance objectives to be concluded upon. During the engagement the assurance practitioner shall reassess the materiality of any the outputs and outcomes non-compliance with compliance requirements if matters come to their attention which indicate that the basis on which the materiality of those outputs or outcomes was determined has changed.

~~34.~~32. The assurance practitioner shall also consider materiality when evaluating the effect of accumulated deficiencies in the compliance framework or non-compliance ~~the compliance with the compliance activity to achieve the compliance objectives~~ requirements. Material deficiencies or non-compliance in outputs are those which could detrimentally significantly impact the achievement of compliance outcomes and reasonably be expected to influence relevant decisions of the intended users.

*Obtaining an Understanding of the Compliance Framework and Compliance Requirements ~~Activity and Other Engagement Circumstances~~*

<b>Limited Assurance</b>	<b>Reasonable Assurance</b>
<p>34L. <u>The assurance practitioner shall obtain an understanding of the entity’s compliance framework and its key elements and the compliance requirements which are included in the scope of the engagement, and other engagement circumstances, and on the basis of that understanding, the assurance practitioner shall:</u></p> <p><u>(a) for a direct engagement, consider whether the identification, selection</u></p>	<p>34R. <u>The assurance practitioner shall obtain an understanding of the entity’s compliance framework and its key elements and the compliance requirements which are included in the scope of the engagement, and other engagement circumstances, and on the basis of that understanding, the assurance practitioner shall:</u></p> <p><u>(a) for a direct engagement, consider whether the identification, selection</u></p>

<sup>12</sup> See ASAE 3000, paragraph 40.  
<sup>13</sup> See ASAE 3000, paragraph 44.

Limited Assurance	Reasonable Assurance
<p><u>or development of compliance requirements is appropriate, and/or select or develop further suitable compliance requirements;</u></p> <p><u>(b) for both attestation and direct engagements:</u></p> <p><u>(i) identify areas where the risks that may cause non-compliance with each of the compliance requirements to be concluded upon are likely to arise; and</u></p> <p><u>(ii) as a basis for designing and performing assurance procedures to respond to the risks identified in paragraph XX(b)(i).</u></p>	<p><u>or development of compliance requirements is appropriate, and/or select or develop further suitable compliance requirements;</u></p> <p><u>(b) for both attestation and direct engagements:</u></p> <p><u>(i) identify and assess the risks that may cause non-compliance with each of the compliance requirements to be concluded upon; and</u></p> <p><u>(ii) as a basis for designing and performing assurance procedures to respond to the risks identified in paragraph XX(b)(i); and</u></p> <p><u>(c) obtain an understanding of the relevant controls over achieving the compliance requirements, evaluating the design of those controls and determining whether they have been implemented.</u></p>

~~36. The assurance practitioner shall obtain an understanding of the activity which is included in the scope of the engagement, and other engagement circumstances, and on the basis of that understanding, the assurance practitioner shall:~~

~~(a) for a direct engagement, consider whether the identification, selection or development of compliance objectives is appropriate, and/or select or develop further suitable compliance objectives;~~

~~(b) for both attestation and direct engagements:~~

~~(i) identify and assess the risks that threaten achievement of each of the compliance objectives to be concluded upon; and~~

~~(ii) as a basis for designing and performing assurance procedures to respond to the risks identified in paragraph XX(b)(i); and~~

~~(c) obtain an understanding of the controls over achieving the compliance objectives, evaluating the design of those controls and determining whether they have been implemented.~~

~~obtain an understanding of the compliance framework and its key elements.~~

*Identifying Risks of Fraud*

~~37.~~34. When performing risk assessment procedures and related activities to obtain an understanding of the compliance framework and other engagement circumstances, the assurance practitioner shall perform the following procedures, to obtain information for use in identifying the risks of the compliance ~~objectives~~requirements not being achieved due to fraud: (Ref: Para. AXX)

- (a) make enquiries of management regarding:
  - (i) management's assessment of the risk that controls may be circumvented due to fraud, including the nature, extent and frequency of such assessment;
  - (ii) management's process for identifying and responding to the risks of fraud;
  - (iii) management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud; and
  - (iv) management's communication, if any, to employees regarding its views on corrupt or fraudulent business practices and unethical behaviour;
- (b) make enquiries of those charged with governance, management, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity;
- (c) make enquiries of the internal audit function, where it exists, to determine whether it has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud;
- (d) obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks;
- (e) consider whether other information obtained by the assurance practitioner indicates risks of compliance ~~objectives~~ requirements not being achieved due to fraud, for which mitigating controls are necessary;
- (f) evaluate whether the information obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present; and
- (g) identify controls over matters for which decisions or actions are not routine, such as adjustments to records, development of estimates and activities outside the normal course of business.

*Obtaining an Understanding of the Internal Audit Function*

~~38.~~35. In planning the engagement, the assurance practitioner shall determine whether the entity has an internal audit function. If so the assurance practitioner shall obtain an understanding of the internal audit function and perform a preliminary assessment regarding: (Ref: Para. AXX)

- (a) its impact on the ~~compliance framework system~~ and the components ~~of control~~ within that ~~framework system~~, including the control environment, risk assessment, information and communication, monitoring activities and control activities in relation to the ~~framework system~~; and
- (b) its effect on procedures to be performed by the assurance practitioner.

~~39.~~36. If the assurance practitioner plans to use the work of the internal audit function, in accordance with paragraph ~~39~~35, the assurance practitioner shall evaluate it as required by ASAE 3000.<sup>14</sup> (Ref: Para. AXX)

~~40.~~37. The use of internal auditors to provide direct assistance is prohibited in an assurance engagement conducted in accordance with this ASAE. Direct assistance is the performance of

---

<sup>14</sup> See ASAE 3000, paragraph 55.

**Proposed Standard on Assurance Engagements ASAE 3100**  
**Compliance Engagements**

assurance procedures under the direction, supervision and review of the assurance practitioner.<sup>15</sup> This prohibition does not preclude reliance on the work of the internal audit function to modify the nature or timing, or reduce the extent, of assurance procedures to be performed directly by the assurance practitioner. (Ref: Para. AXX)

*Determining Whether and to What extent to use the Work of the Internal Audit Function*

- 41.38. If the assurance practitioner’s evaluation of the internal audit function confirms that the work of the internal audit function can be used for purposes of the engagement, then the assurance practitioner shall determine the planned effect of the work of the internal audit function on the nature, timing or extent of the assurance practitioner’s procedures and in doing so, shall consider: (Ref: Para. AXX)
  - (a) the nature and scope of work performed, or to be performed, on compliance within the system by the internal audit function;
  - (b) the significance of that work to the assurance practitioner’s conclusions; and
  - (c) the degree of subjectivity involved in the evaluation of the evidence obtained in support of those conclusions.

**Obtaining Evidence**

- 42.39. Based on the assurance practitioner’s understanding obtained under paragraph XX the assurance practitioner shall perform assurance procedures to respond to assessed risks identified in paragraph XX(b) to obtain limited or reasonable assurance to support the assurance practitioner’s conclusion.
- 43.40. The assurance practitioner shall design and perform additional procedures, the nature, timing and extent of which are responsive to the risks of material deficiency in the compliance framework or non-compliance with compliance requirements, having regard to the level of assurance required, reasonable or limited, as appropriate. (Ref: Para. AXX)

*Responses to Assessed Risks of Fraud*

- 44.41. The assurance practitioner shall treat those assessed risks of compliance objectives requirements not being achieved due to fraud as significant risks and accordingly, the assurance practitioner shall design and perform further assurance procedures, on controls designed to mitigate such risks, whose nature, timing and extent are responsive to those assessed risks, having regard to the level of assurance required, reasonable or limited, as appropriate.

*Obtaining Evidence Regarding the Compliance Activity*

- 45.42. When reporting on compliance activities over the period, the assurance practitioner shall evaluate test those compliance activities that the assurance practitioner has determined are necessary to achieve the compliance requirement objectives identified, and assess their compliance operating effectiveness throughout the period. (Ref: Para. AXX)

Limited Assurance	Reasonable Assurance
<p>46.43. <b>DO NOT DELETE</b></p> <p>44L. The nature, timing and extent of <u>evaluation tests</u> of compliance activities, shall ordinarily be limited to discussion</p>	<p>44R. The nature, timing and extent of <u>evaluation tests</u> of compliance activities, shall ordinarily include, in addition to discussion with entity personnel and observation of the activity in operation</p>

<sup>15</sup> See ASAE 3000, paragraphs 3 and Aus 20.1.

**Proposed Standard on Assurance Engagements ASAE 3100**  
**Compliance Engagements**

Limited Assurance	Reasonable Assurance
<p>with entity personnel, observation of the system in operation and walk-through for an appropriate number of instances of material compliance activities to identify any <del>non-compliance breaches</del>. Alternatively, the results of exception reporting, monitoring or other management controls may be examined to provide evidence about the operation of the compliance activity rather than directly testing it. (Ref: Para. AXX)</p>	<p>for <del>non-compliance breaches</del>, re-performance of compliance procedures, or other examination and follow up of the application of compliance procedures, on a test basis to provide sufficient appropriate evidence on which to base an opinion. The results of exception reporting, monitoring or other management controls may be examined to reduce the extent of direct <del>evaluation testing</del> of the operation of the compliance activity but shall not eliminate it entirely. (Ref: Para. AXX)</p>
<p><del>47-44.</del> <b>DO NOT DELETE</b></p> <p>45L. The assurance practitioner shall apply professional judgement in determining the specific nature, timing and extent of procedures to be conducted, which will depend on the assessed risks of material <del>non-compliance deficiencies or breaches</del> in the compliance activity. If the assurance practitioner determines that additional assurance procedures are required to dispel or confirm a suspicion that a material breach in the compliance activity exists, the performance of such additional procedures shall not convert the engagement to a reasonable assurance engagement as they relate to the reduction of risk to an acceptable level with respect to that matter alone. (Ref: Para. AXX)</p>	<p>45R. The assurance practitioner shall apply professional judgement in determining the specific nature, timing and extent of procedures to be conducted, which will depend on the assessed risks of material <del>non-compliance breaches</del> in the compliance activity. (Ref: Para. AXX)</p>
	<p><del>45.</del> <b>DO NOT DELETE</b></p> <p><del>46R.</del> 46R.—When determining the extent of <del>evaluation tests</del> of compliance activities, the assurance practitioner shall consider matters including the characteristics of the population to be <del>evaluated tested</del>, which includes the nature of the activity, the frequency of their <del>occurrence application</del> (for example, monthly, daily, a number of times per day), and the expected rate of deviation. Some activities operate continuously, while others operate only at particular times, so the <del>evaluation of compliance activities tests of operating effectiveness</del> shall be performed over a period of time that is adequate to determine that <del>they are the compliance procedures are operating effectively</del>. (Ref: Para. AXX)</p>

### Sampling

- 48-46. When the assurance practitioner uses sampling to select compliance activities for testing over a period, the assurance practitioner shall: (Ref: Para. AXX)
- (a) consider the purpose of the procedure and the characteristics of the activity from which the sample will be drawn when designing the sample;
  - (b) determine a sample size sufficient to reduce sampling risk to an acceptably low level;
  - (c) select items for the sample in such a way that each sampling unit in the population has a chance of selection and the sample is representative of the population; and
  - (d) if unable to apply the designed procedures, or suitable alternative procedures, to a selected item, treat that item as a deviation.

### Evaluating the Evidence Obtained

- 49-47. ASAE 3000<sup>16</sup> requires the assurance practitioner to accumulate uncorrected misstatements identified during the engagement other than those that are clearly trivial. Misstatements in a compliance engagement are **non-compliance breaches** in the compliance activity as evaluated against the **compliance identified** requirements.

### Non-compliance with *Other* Laws or Regulations

- 50-48. **Beyond the scope of the engagement.** If the assurance practitioner becomes aware of information concerning an instance of non-compliance or suspected non-compliance with respect to laws and regulations, whether due to the controls themselves not meeting compliance requirements or a failure of controls to prevent or detect non-compliance by the entity, the assurance practitioner shall:
- (a) discuss the matter with management and, if those matters are intentional or material, those charged with governance, unless management or those charged with governance are suspected of involvement in the non-compliance, in which case a level of authority above those suspected of involvement;
  - (b) determine whether the assurance practitioner has a responsibility to report the identified or suspected non-compliance to parties outside of the entity and, if necessary, seek legal advice;
  - (c) if sufficient information regarding suspected non-compliance cannot be obtained, evaluate the effect of insufficient evidence on the assurance report;
  - (d) evaluate the implications of non-compliance in relation to other aspects of the engagement, including the risk assessment and the reliability of written representations; and
  - (e) consider the impact on the assurance practitioner's conclusion of identified non-compliance.

### Work Performed by an Assurance Practitioner's Expert

- 51-49. When the assurance practitioner plans to use the work of an assurance practitioner's expert, the assurance practitioner shall comply with the requirements in ASAE 3000.<sup>17</sup>

---

<sup>16</sup> See ASAE 3000, paragraph 51.

<sup>17</sup> See ASAE 3000, paragraph 52.

### Work Performed by Another Assurance Practitioner or a Responsible Party's or Evaluator's Expert, or an Internal Auditor

~~52.~~50. If the assurance practitioner plans to use information prepared using the work of another assurance practitioner or a responsible party's or evaluator's expert or an internal auditor, as evidence, the assurance practitioner shall comply with the requirements of ASAE 3000.<sup>18</sup>

### Evaluation and Communication of ~~Non-Compliance~~Deficiencies and Breaches

~~53.~~51. The assurance practitioner evaluates individually and in aggregate, whether ~~non-deficiencies and or~~ non-compliance ~~with the compliance requirements is~~ breaches are material.

~~54.~~52. The assurance practitioner communicates these material ~~non-compliances with the compliance requirements~~ deficiencies and or compliance breaches to the responsible party or those charged with governance as soon as practicable.

### Written Representations

~~55.~~53. The assurance practitioner shall request the responsible party, or other relevant person(s) within the entity to provide written representations, in addition to those required by ASAE 3000,<sup>19</sup> that the responsible party:

- (a) in the case of an attestation engagement, reaffirms their Statement regarding the outcome of the responsible party's evaluation of the activity's compliance against the compliance ~~objectives~~ requirements throughout the period;
- (b) acknowledges its responsibility for the compliance of the activity, including identifying the risks that threaten achievement of the compliance ~~objectives~~ requirements, and designing, implementing and maintaining controls to mitigate those risks, including the risk of fraud, so that those risks will not prevent achievement of the compliance ~~objectives~~ requirements;
- (c) has provided the assurance practitioner with all relevant information and access agreed to, as set out in paragraph XX(b)(v);
- (d) has disclosed to the assurance practitioner any of the following of which it is aware may be relevant to the engagement:
  - (i) ~~non-compliance~~ deficiencies in achievement ~~with~~ the compliance objectives requirements; or
  - (ii) any events subsequent to the period covered by the assurance practitioner's report up to the date of the assurance report that could have a significant effect on the assurance practitioner's report.

### Subsequent Events

~~56.~~54. When relevant to the compliance engagement, the assurance practitioner shall consider the effect on the compliance outcome and on the assurance report of events up to the date of the assurance report, and shall respond appropriately to facts that become known to the assurance practitioner after the date of the assurance report, that had they been known to the assurance practitioner at that date, may have caused them to amend the assurance report. Assurance procedures required to be conducted under ASAE 3000,<sup>20</sup> to identify all matters up to the date of the assurance report that may have caused the assurance practitioner to amend the assurance report on the activity's compliance, shall include enquiry as to whether the responsible party is

---

<sup>18</sup> See ASAE 3000, paragraphs 53-54.

<sup>19</sup> See ASAE 3000, paragraph 56.

<sup>20</sup> ~~See ASAE 3000, paragraph 61.~~

~~aware of any events subsequent to the period covered by the assurance engagement up to the date of the assurance practitioner's report that may have caused the assurance practitioner to amend the assurance report. If the assurance practitioner is aware of such an event, remedial action is either not taken or is not effective in mitigating the impact on the assurance conclusion and information about that event is not disclosed by the responsible party, the assurance practitioner shall disclose the subsequent event in the assurance practitioner's report. If the event may impact the assurance conclusion, the assurance practitioner shall gather further evidence sufficient to determine whether the assurance conclusion remains appropriate or a modified assurance conclusion is required. The extent of consideration of subsequent events depends on the potential for such events to affect the compliance outcome and the appropriateness of the assurance practitioner's conclusion. The assurance practitioner has no responsibility to perform any procedures regarding the compliance outcome after the date of the assurance report.~~

### Forming the Assurance Conclusion

~~57.~~55. The assurance practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained in the context of the engagement and, if necessary, attempt to obtain further evidence. If the assurance practitioner is unable to obtain necessary further evidence, the assurance practitioner shall consider the implications for the assurance practitioner's conclusion in accordance with ASAE 3000.<sup>21</sup> The assurance practitioner shall qualify their conclusion if the possible effects of undetected ~~deficiencies non-compliance with the in~~ achievement of the compliance requirements objectives due to an inability to obtain sufficient appropriate evidence could be material, and shall disclaim their conclusion if the possible effects could be both material and pervasive.

~~58.~~56. When the assurance practitioner forms a conclusion in accordance with ASAE 3000,<sup>22</sup> the assurance practitioner shall evaluate the materiality, individually and in aggregate whether due to fraud or error, of any ~~non-compliance deficiencies in achievement of~~ with the compliance ~~objectives requirements~~.

~~59.~~57. The assurance practitioner shall assess the impact of identified ~~deficiencies non-compliances~~ in achievement of the compliance ~~objectives requirements~~, which are material individually or in combination, on the assurance practitioner's conclusion on the compliance of the activity. If the ~~non compliance deficiency~~ deficiencies identified are: (Ref: Para. AXX-AXX)

- (a) material but not pervasive, the assurance practitioner shall qualify their assurance conclusion with respect to the relevant matter; or
- (b) material and pervasive, the assurance practitioner shall issue an adverse conclusion.

### Preparing the Assurance Report

~~60.~~58. The assurance practitioner shall prepare the assurance report in accordance with ASAE 3000<sup>23</sup> for attestation engagements and shall also apply those requirements for direct engagements.

#### *Assurance Report Content*

~~61.~~59. For both attestation and direct engagements, the assurance practitioner shall include in the assurance report the basic elements required by ASAE 3000,<sup>24</sup> which are at a minimum:

- (a) a title, indicating that it is an independent assurance report;
- (b) an addressee;

---

<sup>21</sup> See ASAE 3000, paragraph 66.

<sup>22</sup> See ASAE 3000, paragraphs 64-65.

<sup>23</sup> See ASAE 3000, paragraphs 67-69.

<sup>24</sup> See ASAE 3000, paragraph 69.

**Proposed Standard on Assurance Engagements ASAE 3100**  
**Compliance Engagements**

---

- (c) an identification of whether reasonable or limited assurance has been obtained by the assurance practitioner;
- (d) identification of the activity which is the subject matter of the engagement including:
  - (i) the distinguishing features of the activity which was subject to the compliance engagement;
  - (ii) the period covered by the compliance engagement;
  - (iii) in the case of an attestation engagement, reference to the responsible party's Statement as required by paragraph XX(a)(i) and whether that Statement is available to intended users by accompanying the assurance report, reproduction in the assurance report or another identified source;
  - (iv) identification of the overall and/or specific compliance ~~objectives~~requirements used as criteria for evaluating the compliance of the activity and the party specifying those compliance ~~objectives~~requirements;
  - (v) if appropriate, a description of any significant inherent limitations associated with the evaluation of the activity's compliance against the compliance ~~objectives~~requirements;
- (e) a statement that the responsible party or evaluator is responsible for:
  - (i) in an attestation engagement:
    - a. providing a Statement with respect to the outcome of the evaluation of the activity's compliance against the compliance ~~objectives~~requirements;
    - b. identifying the compliance ~~objectives~~requirements (where not identified by Parliament, the Government, law or regulation, or another party, for example, a user group or a professional body); and
  - (ii) in both an attestation and a direct engagement:
    - a. the activity covered by the assurance practitioner's report;
    - b. designing and implementing controls to enable achievement of the compliance ~~objectives~~requirements and to monitor compliance in achieving the compliance ~~objectives~~requirements;
- (f) a statement that the assurance practitioner's responsibility is to express a conclusion on the activity's compliance in achieving the compliance ~~objectives~~requirements;
- (g) a statement that the engagement was performed in accordance with ASAE 3100 Compliance Engagements;
- (h) a statement that the ~~Audit Office or~~ firm of which the assurance practitioner is a member applies ASQC 1;
- (i) a statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements;
- (j) a summary of the work performed by the assurance practitioner to obtain reasonable or limited assurance and a statement of the assurance practitioner's belief that the evidence obtained is sufficient and appropriate to provide a basis for the assurance practitioner's conclusion. In the case of a limited assurance engagement, in which an appreciation of the nature, timing, and extent of procedures performed is essential to

**Proposed Standard on Assurance Engagements ASAE 3100**  
**Compliance Engagements**

---

understanding the assurance practitioner's conclusion, the summary of the work performed shall state that:

- (i) the procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and
- (ii) consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed;

~~(k) a statement of the limitations of compliance and, if applicable, of the risk of projecting to other periods the outcome of any evaluation of the activity's compliance;~~

~~(k) where appropriate, a description of any significant, inherent limitation associated with the evaluation of compliance with the compliance requirements;~~

~~(l) when the criteria used to evaluate the compliance requirements are available only to specific intended users, or are relevant only for a specific purpose, a statement restricting the use of the assurance report to those intended users or that purpose;~~

~~(m)~~ (m) either, the assurance practitioner's opinion for a reasonable assurance engagement or the assurance practitioner's conclusion for a limited assurance engagement about whether, in all material respects the activity achieved the compliance objectives requirements throughout the period.

~~(n)~~ (n) when the assurance practitioner expresses a modified conclusion, the assurance report shall contain:

- (i) a section (entitled: Basis for Qualified/Adverse/Disclaimer of Conclusion/Opinion) that provides a description of the matter(s) giving rise to the modification; and
- (ii) a section that contains the assurance practitioner's modified conclusion;

~~(o)~~ (o) the assurance practitioner's signature, the date of the assurance report and the location in the jurisdiction where the assurance practitioner practices.

~~62-60.~~ 62-60. If the assurance practitioner ~~is required to~~ provides a long-form assurance report to meet the information needs of users, as agreed in the terms of engagement, or as required by law or regulation, the assurance practitioner's report shall include a separate section, or an attachment, containing any other information and explanations that are not intended to affect the assurance practitioner's conclusion and are clearly identified as such.

~~63-61.~~ 63-61. If the assurance practitioner is required to conclude on other subject matters under different AUASB standards in conjunction with an engagement to report under this ASAE, the assurance report shall include a separate section for each subject matter in the assurance report, clearly differentiated by appropriate section headings.

*Emphasis of Matter and Other Matter Paragraphs*

~~64-62.~~ 64-62. The assurance practitioner shall include an Emphasis of Matter or Other Matter paragraph in the circumstances provided for in ASAE 3000<sup>25</sup> for an attestation engagement. In a direct engagement, if the assurance practitioner considers it necessary to communicate a matter that, in the assurance practitioner's judgement, is relevant to intended users' understanding of the engagement, the assurance practitioner's responsibilities or the assurance report, the assurance

---

<sup>25</sup> See ASAE 3000, paragraph 73.

practitioner shall include in the assurance report an Other Matter paragraph, with an appropriate heading, that clearly indicates the assurance practitioner's conclusion is not modified in respect of the matter.

#### *Modified Conclusions*

~~65.~~**63.** If the assurance practitioner concludes that the activity has not achieved the compliance ~~objectives~~**requirements** throughout the period; or the assurance practitioner is unable to obtain sufficient appropriate evidence, the assurance practitioner's conclusion shall be modified, and the assurance practitioner's report shall include a section with a clear description of all the reasons for the modification.

#### Scope Limitation

~~66.~~**64.** A limitation on the scope of the assurance practitioner's work may be imposed by the terms of the engagement or by the circumstances of the particular engagement. When the limitation is imposed by the terms of the engagement, and the assurance practitioner believes that an inability to form an opinion or reach a conclusion would need to be expressed, the engagement shall not be accepted or continued past the current period, unless required to do so by law or regulation.

~~67.~~**65.** When a scope limitation is imposed by the circumstances of the particular engagement, the assurance practitioner shall attempt to perform alternative procedures to overcome the limitation. When a scope limitation exists and remains unresolved, the wording of the assurance practitioner's conclusion shall indicate that it is qualified as to the effects of any deficiency in the compliance of the activity, which might have been identified had the limitation not existed. If the effect of the unresolved scope limitation is both material and pervasive, the assurance practitioner shall express a disclaimer of conclusion.

#### **Other Communication Responsibilities**

~~68.~~**66.** The assurance practitioner shall consider whether, pursuant to the terms of the engagement, if applicable, and other engagement circumstances, any matter has come to the attention of the assurance practitioner that is to be communicated with the responsible party, the evaluator, the engaging party, those charged with governance or others, as required by ASAE 3000.<sup>26</sup> If during the course of the engagement the assurance practitioner identifies any ~~deficiencies~~**non-compliance with the** entity's compliance ~~requirements~~**requirements** other than those which are clearly trivial, the assurance practitioner shall report to an appropriate level of management or those charged with governance on a timely basis those ~~matters of non-compliance~~**deficiencies**.

~~69.~~**67.** If the assurance practitioner has identified a fraud or has obtained information that indicates that a fraud may exist, the assurance practitioner shall communicate these matters on a timely basis to the appropriate level of management or those charged with governance in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. The assurance practitioner shall determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity.

~~70.~~**68.** The assurance practitioner shall design engagement procedures to gather sufficient appropriate evidence to form a conclusion in accordance with the terms of the engagement. In the absence of a specific requirement in the terms of engagement the assurance practitioner does not have a responsibility to design procedures to identify matters outside the scope of the engagement that may be appropriate to report to management or those charged with governance.

---

<sup>26</sup> See ASAE 3000, paragraph 78.

**Documentation**

- | ~~71.~~69. The assurance practitioner shall prepare documentation in accordance with ASAE 3000.<sup>27</sup> In documenting the nature, timing and extent of procedures performed as required by ASAE 3000, the assurance practitioner shall record:
- (a) the identifying characteristics of the activity's compliance being tested;
  - (b) who performed the work and the date such work was completed; and
  - (c) who reviewed the work performed and the date and extent of such review.
- | ~~72.~~70. If the assurance practitioner uses specific work of the internal audit function, the assurance practitioner shall document the conclusions reached regarding the evaluation of the adequacy of the work of the internal audit function, and the procedures performed by the assurance practitioner on that work.

\* \* \*

Draft

---

<sup>27</sup> See ASAE 3000, paragraphs 79-83.

## **Application and Other Explanatory Material**

### **Application (Ref: Para. 1)**

- A1. [Engagements which are covered by this ASAE and those that are covered by other subject matter specific ASAEs have been further illustrated at Appendix 3.](#)

### **Introduction**

- A2. The primary purpose of an assurance engagement is the conduct of assurance procedures to provide an assurance conclusion. However, the assurance practitioner is not precluded from providing recommendations for improvements to the compliance framework or compliance activity's in conjunction with or as a result of conducting an assurance engagement to report on compliance.
- A3. The risks, compliance requirements and related controls addressed in an engagement under this ASAE may relate to any subject matter relevant to the entity. The subject matter can be any activity of the entity, such as: compliance with legislation or regulation; contractual arrangements or policy and procedures.
- A4. The primary practical difference for the assurance practitioner between an attestation and a direct engagement is the additional work effort for a direct engagement when planning the engagement and understanding the compliance framework and other engagement circumstances. In a direct engagement the assurance practitioner identifies or selects the compliance requirements which address the purpose or overall objective of the engagement. This difference affects the assurance practitioner's work effort in planning a direct engagement if the compliance requirements have not been identified or documented and in understanding the entity's compliance framework where a description is not available.
- A5. In a three party relationship, which is an element of an assurance engagement,<sup>28</sup> the responsible party may or may not be the engaging party, but is responsible for the compliance activity's which are the underlying subject matter of the engagement and is a separate party from the intended users. The responsible party and the intended users may both be internal to the entity, for example if the responsible party is at an operational level of management and the intended users are at the level of those charged with governance, such as the Board or Audit Committee. See Appendix 1 for a discussion of how each of these roles relate to an assurance engagement on compliance.

### **Definitions**

### **Applicability of ASAE 3000**

### **Ethical Requirements**

- A6. In accepting an assurance engagement on compliance, the assurance practitioner, in order to comply with relevant ethical requirements, considers whether the assurance practitioner has provided internal audit or consulting services with respect to the compliance framework or implementation of controls at the entity, as any such past or current engagements are likely to impact on the assurance practitioner's independence and are likely to preclude acceptance of the engagement.

---

<sup>28</sup> See Framework for Assurance Engagements.

## **Acceptance and Continuance**

### *Competence and Capabilities to Perform the Engagement*

- A7. Relevant competence and capabilities to perform the compliance engagement, as required by ASAE 3000<sup>29</sup> by persons who are to perform the engagement, include matters such as the following:
- Knowledge of the relevant industry, compliance framework, type of system and of the nature of the overall compliance requirements (for example: emissions quantification or regulatory compliance).
  - An understanding of IT and systems.
  - Experience in evaluating risks as they relate to the compliance requirements.
  - Experience in the design and execution of tests of compliance and the evaluation of the results.

### *Assessing the Appropriateness of the Subject Matter*

- A8. An appropriate subject matter is:
- (a) identifiable, and capable of consistent evaluation against the identified criteria; and
  - (b) such that the information about it can be subjected to procedures for gathering sufficient appropriate evidence to support a reasonable assurance or limited assurance conclusion, as appropriate.
- A9. Examples of subject matters that may be appropriate for a compliance engagement include compliance with the following:
- General Insurers and Insurance Groups - Risk Management Strategy & Reinsurance Management Strategy (RMS/REMS).
  - Treasurer's Instructions.
  - Managed Investment Schemes – Compliance Plan.
  - Registered Superannuation Entity – SIS Act requirements (SPS 310)
  - Financial Services Licensee – Corporations Act 2001 requirements
- A10. For further guidance on assessing the appropriateness of the subject matter refer to [Appendix 2](#) and ASAE 3000<sup>30</sup>.

### *Assessing the Suitability of the Criteria*

- A11. Where the criteria are prescribed by legislation or regulation the criteria will be deemed to be suitable for the purposes of the compliance engagement. In circumstances where this is not the case, the assurance practitioner needs to assess the suitability of the criteria to evaluate the requirement.
- A12. In the context of a compliance engagement, examples of suitable criteria include:
- Externally imposed criteria under law or directives, including:

---

<sup>29</sup> See ASAE 3000, paragraph 32.

<sup>30</sup> See ASAE 3000, paragraph 24(b)(i).

- Legislation.
- Regulation.
- Other statutory requirements (e.g. ASIC Regulatory Guides and Practice Notes or APRA Prudential Standards).
- Ministerial directives.
- Industry or professional obligations (professional standards or guidance, codes of practice or conduct).
- Enforceable contractual obligations.
- Enforceable undertakings.
- Internally imposed criteria, as determined by management, including:
  - Organisational policies and procedures.
  - Frameworks, for example, compliance framework based on [ISO 19600 AS 3806 – Compliance Management Systems](#) [Australian Standard Compliance Programs](#)

A13. Suitable criteria need to be identified by the parties to the engagement and agreed by the engaging party and the assurance practitioner. The assurance practitioner may need to discuss the criteria to be used with those charged with governance, management and the intended users of the report. Criteria can be either established or specifically developed. The assurance practitioner normally concludes that established criteria embodied in laws or regulations or issued by professional bodies, associations or other recognised authorities that follow due process are suitable when the criteria are consistent with the objective. Other criteria may be agreed to by the intended users of the assurance practitioner's report, or a party entitled to act on their behalf, and may also be specifically developed for the engagement.

A14. In situations where the criteria have been specifically developed for the engagement, including where the assurance practitioner develops or assists in developing suitable criteria, the assurance practitioner obtains from the intended users or a party entitled to act on their behalf, acknowledgment that the specifically developed criteria are sufficient for the user's purposes.

A15. The criteria may need to be amended during the engagement, if for example more information becomes available or the circumstances of the entity change. Any changes in the criteria are discussed with the engaging party and, if appropriate the intended users.

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

A16. When agreeing whether the engagement is to be conducted as an attestation or direct engagement, the assurance practitioner considers factors such as whether:

- (c) there is a regulatory requirement or users need an evaluation of the compliance activity by the responsible party or evaluator;
- (d) the entity has the resources and expertise to prepare a suitable description or documentation of the compliance requirements and related controls and conduct a meaningful evaluation of those controls; or
- (e) it is more cost effective for the entity to identify the specific compliance requirements and related controls, evaluate those compliance activities as the basis for an attestation engagement, rather than it being necessary for the assurance practitioner to do so in a direct engagement.

- A17. The assurance practitioner considers the needs of users in agreeing the point in time or period to be covered by the assurance engagement, so that the report is not likely to be misleading.
- A18. If the criteria are compliance requirements which are available when agreeing the terms of engagement, they may be listed or attached to the engagement letter or other written terms.
- A19. When agreeing whether the report will be in long-form, including matters such as evaluation of compliance procedures and detailed findings, the assurance practitioner considers both the needs of users and the risks of users misunderstanding the context of the procedures conducted or the findings reported. Reporting evaluation of compliance procedures and findings may be appropriate where the users are knowledgeable with respect to assurance and the compliance requirements and, therefore, not likely to misinterpret those findings.
- A20. An example engagement letter is contained in Appendix X.

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

#### *Planning (Ref: Para. XX-XX)*

- A21. Planning involves developing an overall strategy for the scope, emphasis, timing and conduct of the compliance engagement, and a compliance engagement plan, consisting of a detailed approach for the nature, timing and extent of evidence-gathering procedures to be undertaken and the reasons for selecting them. Ordinarily, adequate planning:
- Helps to devote appropriate attention to important areas of the compliance engagement, identify potential problems on a timely basis and properly organise and manage the compliance engagement in order for it to be conducted in an effective and efficient manner.
  - Assists the assurance practitioner to properly assign work to compliance engagement team members, and facilitates their direction and supervision and the review of their work.
  - Assists, where applicable, the coordination of work done by other assurance practitioners and experts.
- A22. The nature and extent of planning activities will vary with the compliance engagement circumstances, for example the size and complexity of the compliance activity and the assurance practitioner's previous experience with it. Examples of the main matters to be considered include:
- The terms of the compliance engagement.
  - The characteristics of the compliance activity and the identified criteria.
  - The compliance engagement process and possible sources of evidence.
  - The assurance practitioner's understanding of the compliance activity and other compliance engagement circumstances.
  - Identification of intended users and their needs, and consideration of materiality and the components of compliance engagement risk.
  - Personnel and expertise requirements, including the nature and extent of involvement by experts.
- A23. Planning is not a discrete phase, but rather a continual and iterative process throughout the compliance engagement. As a result of unexpected events, changes in conditions, or the evidence obtained from the results of evidence-gathering procedures, the assurance practitioner may need to revise the overall strategy and compliance engagement plan, and

thereby the resulting planned nature, timing and extent of further evidence-gathering procedures.

*Materiality*

- A24. The assurance practitioner applies the same considerations in both limited assurance and reasonable assurance engagements regarding what represents a material compliance activity and requirement, since such judgements are not affected by the level of assurance being obtained.
- A25. The assurance practitioner considers the materiality of the compliance activity and compliance requirements at the planning stage, reassesses materiality during the engagement based on the findings, and considers the materiality of any identified deficiencies in the compliance framework and non-compliance with compliance requirements.
- A26. The assurance practitioner considers materiality in the context of quantitative and qualitative factors, such as relative magnitude of instances of detected or suspected non-compliance, the nature and extent of the effect of these factors on the evaluation of compliance with the compliance requirements ~~against as measured by~~ the criteria, and the interests of the intended users. The assessment of materiality and the relative importance of quantitative and qualitative factors in a particular engagement are matters for the assurance practitioner's professional judgement, taking into account specific regulatory reporting requirements.
- A27. Quantitative and qualitative factors which the assurance practitioner may consider when assessing materiality may include:
- The magnitude of the impact of the compliance activity's performance.
  - The relative importance of the matter to achieving the compliance activity's outcomes requirements.
  - The financial impact of the matter on the compliance activity as a whole.
  - The nature of relevant transactions, whether they involve high volumes, large dollar values and complex transactions relative to the compliance activity as a whole.
  - The extent of interest shown in particular aspects of the compliance activity by, for example, governing body, regulatory authorities and agencies or the public.

*Obtaining an Understanding of the Compliance Framework and Compliance Requirements*

- A28. The assurance practitioner's understanding of the compliance framework and compliance requirements, ordinarily, has a lesser depth for a limited assurance engagement than for a reasonable assurance engagement. The assurance practitioner's procedures to obtain this understanding may include:
- Review and understand the relevant criteria and compliance objective.
  - Enquiring of those within the entity who, in the assurance practitioner's judgement, may have relevant information.
  - Observing operations.
  - Inspecting documents, reports, printed and electronic records.
  - Re-performing compliance procedures.
- A29. The nature and extent of procedures to gain this understanding are a matter for the assurance practitioner's professional judgement and will depend on factors such as:

- (a) the entity's size and complexity;
- (b) the nature of the system to be examined, including the compliance requirement(s) to which the compliance procedures are directed and the risk that those compliance requirements will not be achieved;
- (c) the extent to which IT is used; and
- (d) the documentation available.

A30. The nature and extent of planning and subsequent evidence-gathering procedures will vary with the engagement circumstances, and the maturity of the entity's compliance framework.

Elements of an entity's compliance framework ordinarily include the following:

- Procedures for identifying and updating compliance obligations.
- Staff training and awareness programs.
- Procedures for assessing the impact of compliance obligations on the entity's key business activities.
- Controls embedded within key business processes designed to ensure compliance with obligations.
- Processes to identify and monitor the implementation of further mitigating actions required to ensure that compliance obligations are met.
- A monitoring plan to test key compliance controls on a periodic basis and report exceptions.
- Procedures for identifying, assessing, rectifying and reporting compliance incidents and breaches.
- Periodic sign off by management and/or external third party outsourced service providers as to compliance with obligations.
- A compliance governance structure that establishes responsibility for the oversight of compliance control activities with those charged with governance, typically a Board Audit, Risk Management or Compliance Committee.

*Identifying Risks of Fraud (Ref: Para. XX)*

A31. Management is in a unique position to perpetrate fraud because of management's ability to manipulate the entity's records or prepare fraudulent reports by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk that compliance requirements will not be achieved due to fraud and thus is a significant risk.

*Obtaining an Understanding of the Internal Audit Function (Ref: Para. XX-XX)*

A32. In obtaining an understanding of the compliance framework, including controls, the assurance practitioner determines whether the entity has an internal audit function and its effect on the controls within the compliance framework. The internal audit function ordinarily forms part of the entity's internal control and governance structures. The responsibilities of the internal audit function may include, for example, monitoring of internal control, risk management, and review of compliance with laws and regulations, and is considered as part of the assurance practitioner's assessment of risk.

- A33. An effective internal audit function may enable the assurance practitioner to modify the nature and/or timing, and/or reduce the extent of assurance procedures performed, but cannot eliminate them entirely.

### **Obtaining Evidence**

- A34. Compliance engagements require the application of assurance skills and techniques to gather sufficient appropriate evidence as part of an iterative, systematic assurance engagement process. As the assurance practitioner performs planned procedures, the evidence obtained may differ significantly from that on which the planned procedures were based and cause the assurance practitioner to perform additional procedures. In the case of an attestation engagement, such procedures may include asking the responsible party to examine the matter identified by the assurance practitioner, and to make amendments to the description or Statement, if appropriate.
- A35. The assurance practitioner may become aware of a matter(s) that causes the assurance practitioner to believe that there are deficiencies in the compliance framework or the compliance activity is not compliant with the compliance requirements. In such cases, the assurance practitioner may investigate such differences by, for example, inquiring of the appropriate party(ies) or performing other procedures as appropriate in the circumstances.

### **Limited and Reasonable Assurance Engagements (Ref: Para. XX)**

- A36. The level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, therefore the procedures the assurance practitioner performs in a limited assurance engagement are different in nature and timing from, and are less in extent than for, a reasonable assurance engagement. The primary differences between the assurance practitioner's overall responses to assessed risks and further procedures conducted in a reasonable assurance engagement and a limited assurance engagement on compliance include:
- (a) the emphasis placed on the nature of various procedures as a source of evidence will likely differ, depending on the engagement circumstances. For example, the assurance practitioner may judge it to be appropriate in the circumstances of a particular limited assurance engagement to place relatively greater emphasis on indirect evaluation of compliance activities, such as enquiries of the entity's personnel, and relatively less emphasis, on evaluation of compliance activities, such as observation, re-performance or inspection, than would may be the case for a reasonable assurance engagement.
  - (b) in a limited assurance engagement, the further procedures performed are less in extent than in a reasonable assurance engagement in that those procedures may involve:
    - (i) selecting fewer items for examination;
    - (ii) performing fewer types of procedures; or
    - (iii) performing procedures at fewer locations.

### **Work Performed by an Assurance Practitioner's Expert**

- A37. ASAE 3000<sup>31</sup> provides application material for the circumstances where an assurance practitioner's expert is involved in the engagement. This material may also be used as helpful guidance when using the work of another assurance practitioner or a responsible party's or evaluator's expert.

---

<sup>31</sup> See ASAE 3000, paragraphs A120-A134.

**Work Performed by Another Assurance Practitioner or a Responsible Party's or Evaluator's Expert, or an Internal Auditor**

- A38. When information on compliance activities to be used as evidence has been prepared using the work of a responsible party's or evaluator's expert, the nature, timing and extent of procedures with respect to the work of the responsible party's or evaluator's expert may be affected by such matters as:
- (a) the nature and complexity of the compliance activity to which the expert's work relates;
  - (b) the risks of a material deficiency in the compliance framework or non-compliance with the compliance requirements during the period;
  - (c) the availability of alternative sources of evidence or mitigating controls;
  - (d) the nature, scope and objectives of the expert's work;
  - (e) whether the expert is employed by the entity, or is a party engaged by it to provide relevant services;
  - (f) the extent to which responsible party or evaluator can exercise control or influence over the work of the expert;
  - (g) whether the expert is subject to technical performance standards or other professional or industry requirements;
  - (h) the nature and extent of any controls within the entity over the expert's work;
  - (i) the assurance practitioner's knowledge and experience of the expert's field of expertise; and
  - (j) the assurance practitioner's previous experience of the work of that expert.

*Work Performed by the Internal Audit Function (Ref: Para. XX-XX)*

- A39. The nature, timing and extent of the assurance practitioner's procedures on specific work of the internal auditors will depend on the assurance practitioner's assessment of the significance of that work to the assurance practitioner's conclusions, the evaluation of the internal audit function and the evaluation of the specific work of the internal auditors. Such procedures may include:
- (a) examination of evidence of the operation of the compliance activity already examined by the internal auditors;
  - (b) examination of evidence of the operation of other instances of the same compliance activity;
  - (c) examination of the outcomes of monitoring of controls by internal auditors; and
  - (d) observation of procedures performed by the internal auditors.
- A40. Irrespective of the degree of autonomy and objectivity of the internal audit function, such a function is not independent of the entity as is required of the assurance practitioner when performing the engagement. The assurance practitioner has sole responsibility for the conclusion expressed in the assurance report, and that responsibility is not reduced by the assurance practitioner's use of the work of the internal auditors.

### **Evaluation and Communication of Non-Compliance**

- A41. In evaluating any non-compliance with the compliance requirements the assurance practitioner ordinarily considers materiality as specified in the terms of the engagement, any relevant legislative, regulatory or other (e.g. contractual) requirements which may apply and the effect on the decisions of the intended users of the assurance report and the assurance practitioner's conclusion.
- A42. For both reasonable and limited assurance engagements, if the assurance practitioner becomes aware of a matter that leads the assurance practitioner to question whether a material non-compliance exists, the assurance practitioner would ordinarily pursue the matter by performing other evidence gathering procedures sufficient to enable the assurance practitioner to form a conclusion.

### **Written Representations**

- A43. For application material on using written representations refer to ASAE 3000.<sup>32</sup>
- A44. The person(s) from whom the assurance practitioner requests written representations will ordinarily be a member of senior management or those charged with governance. However, because management and governance structures vary by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics, it is not possible for this ASAE to specify for all engagements the appropriate person(s) from whom to request written representations. The process to identify the appropriate person(s) from whom to request written representations requires the exercise of professional judgement.

### **Subsequent Events**

- A45. Assurance procedures with respect to the identification of subsequent events after period end are limited to examination of relevant reports, for example reports on compliance procedures, minutes of relevant committees and enquiry of management or other personnel as to significant non-compliance with ~~compliance~~ ~~control~~ procedures.
- ~~A46. The matters identified may provide:~~
- ~~(a) additional evidence or reveal for the first time conditions that existed during the period on which the assurance practitioner is reporting; or~~
- ~~(b) evidence about conditions that existed subsequent to the period on which the assurance practitioner is reporting that may significantly affect the operation of the compliance procedures.~~
- ~~A47. In the circumstances described in paragraph A46(a), the assurance practitioner reassesses any conclusions previously formed that are likely to be affected by the additional evidence obtained.~~
- ~~A48. In the circumstances described in paragraph A46(b) when the assurance practitioner's report has not already been issued:~~
- ~~(a) in an attestation engagement, the assurance practitioner:~~
- ~~(i) includes an Emphasis of Matter where the responsible party's Statement is available to users and adequately discloses the subsequent event; or~~
- ~~(ii) issues a qualified conclusion if the responsible party's Statement is available to users and does not adequately disclose the subsequent event; and~~

---

<sup>32</sup> See ASAE 3000, paragraphs A136-A139.

~~(b) in a direct engagement, the assurance practitioner includes a paragraph in the assurance report headed “Subsequent Events” describing the events and indicating that the subsequent events do not impact the assurance conclusion but they may affect the future effectiveness of the compliance procedures.~~

~~A49.~~ **A46.** The assurance practitioner does not have any responsibility to perform procedures or make any enquiry after the date of the report. If however, after the date of the report, the assurance practitioner becomes aware of a matter identified in paragraph A46, the assurance practitioner considers re-issuing the report. In an attestation engagement where the report has already been issued, the new report includes an Emphasis of Matter discussing the reason for the new report. In a direct engagement, the new report discusses the reason for the new report under a heading “Subsequent Events”.

## **Forming the Assurance Conclusion**

### **Preparing the Assurance Report**

#### *Assurance Report Content*

~~A50.~~ **A47.** The assurance practitioner may expand the report to include other information not intended as a qualification of the assurance practitioner’s conclusion. If the report includes other information it is a long-form report as the information is additional to the basic elements required in paragraph XX for a short-form report. This additional information may be required by regulation or agreed in the terms of the engagement to meet the needs of users. When considering whether to include any such information the assurance practitioner assesses the materiality of that information in the context of the objectives of the engagement. Other information is not to be worded in such a manner that it may be regarded as a qualification of the assurance practitioner’s conclusion and may include for example:

- Relevant background information and historical context.
- The assurance approach.
- Underlying facts and criteria applied.
- Disclosure of materiality levels.
- Findings relating to particular aspects of the compliance engagement.
- Analysis of the causes of non-compliance with the compliance requirements.
- Recommendations for improvements to address identified compliance framework deficiencies.

~~A51.~~ **A48.** In some circumstances, the form and/or content of the assurance report is prescribed by law or regulation. In such cases, the assurance practitioner compares the prescribed report with the reporting requirements under this ASAE to ensure the minimum basic elements have been met.

#### *Specific Purpose*

~~A52.~~ The assurance practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, for example, the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the assurance report. While an assurance report may be restricted in this way, the absence of a restriction regarding a particular user or purpose does not itself indicate that a legal responsibility is owed by the assurance practitioner in relation to that user or for that purpose. Whether a legal responsibility is owed will depend on the legal circumstances of each case and the relevant jurisdiction.

*Summary of the Work Performed*

~~A53.~~**A49.** The summary of the work performed helps the intended users understand the nature of the assurance conveyed by the assurance report. For many assurance engagements, infinite variations in procedures are possible in theory. It may be appropriate to include in the summary a statement that the work performed included evaluating the suitability of the compliance requirements and the risks that threaten achievement of those compliance requirements.

~~A54.~~**A50.** In a limited assurance engagement an appreciation of the nature, timing, and extent of procedures performed is essential to understanding the assurance conveyed by the conclusion, therefore the summary of the work performed is ordinarily more detailed than for a reasonable assurance engagement and identifies the limitations on the nature, timing, and extent of procedures. It also may be appropriate to indicate certain procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement. However, a complete identification of all such procedures may not be possible because the assurance practitioner's required understanding and consideration of engagement risk is less than in a reasonable assurance engagement.

~~A55.~~**A51.** Factors to consider in determining the level of detail to be provided in the summary of the work performed include:

- (a) circumstances specific to the entity (e.g. the maturity of the entity's compliance framework compared to those typical in the sector);
- (b) specific engagement circumstances affecting the nature and extent of the procedures performed; and
- (c) the intended users' expectations of the level of detail to be provided in the report, based on market practice, or applicable law or regulation.

~~A56.~~**A52.** It is important that the summary be written in an objective way that allows intended users to understand the work done as the basis for the assurance practitioner's conclusion. In most cases this will not involve relating the entire work plan, but on the other hand it is important for it not to be so summarised as to be ambiguous, nor written in a way that is overstated or embellished.

~~A57.~~**A53.** Illustrative examples of assurance practitioner's reports are contained in Appendix X.

*Intended Users and Specific Purposes of the Assurance Report (Ref: Para. XX)*

~~A58.~~**A54.** If the assurance practitioner's report on compliance has been prepared for a specific purpose and is only relevant to the intended users, this is stated in the assurance practitioner's report. In addition, the assurance practitioner may consider it appropriate to include wording that specifically restricts distribution of the assurance report other than to intended users, its use by others, or its use for other purposes.

*Modified Conclusions (Ref: Para. XX-XX)*

~~A59.~~**A55.** Modifications to the assurance report may be made in the following circumstances:

- (a) a qualified conclusion may be issued if the following matters are material but not pervasive:
  - (i) unsuitable criteria mandated by legislation or regulation;
  - (ii) scope limitation;
  - (iii) non-compliance with the compliance requirements;

- (iv) misstatement in the Statement;
- (b) an adverse conclusion may be issued if the following matters are both material and pervasive:
  - (i) unsuitable criteria mandated by legislation or regulation;
  - (ii) systemic deficiency in the compliance framework;
  - (iii) misstatement in the Statement;
- (c) a disclaimer may be issued if there is a limitation of scope which is both material and pervasive.

| ~~A60.~~**A56.** Illustrative examples of elements of modified assurance practitioner's reports are contained in Appendix X.

| ~~A61.~~**A57.** Even if the assurance practitioner has expressed an adverse conclusion or a disclaimer of conclusion, it may be appropriate to describe in the basis for modification paragraph the reasons for any other matters of which the assurance practitioner is aware that would have required a modification to the conclusion, and the effects thereof.

| ~~A62.~~**A58.** When expressing a disclaimer of conclusion, because of a scope limitation, it is not ordinarily appropriate to identify the procedures that were performed nor include statements describing the characteristics of the assurance practitioner's engagement; to do so might overshadow the disclaimer of conclusion.

#### **Other Communication Responsibilities**

| ~~A63.~~**A59.** Appropriate actions to respond to the circumstances identified in paragraph XX may include:

- Obtaining legal advice about the consequences of different courses of action.
- Communicating with those charged with governance of the entity.
- Communicating with third parties (for example, a regulator) when required to do so.
- Modifying the assurance practitioner's conclusion, or adding an Other Matter paragraph.
- Withdrawing from the engagement.

| ~~A64.~~**A60.** Certain matters identified during the course of the engagement may be of such importance that they would be communicated to those charged with governance. Unless stated otherwise in the terms of engagement, less important matters would be reported to a level of management that has the authority to take appropriate action.

#### **Documentation**

| ~~A65.~~**A61.** For application material on preparing and maintaining documentation refer ASAE 3000.<sup>33</sup>

---

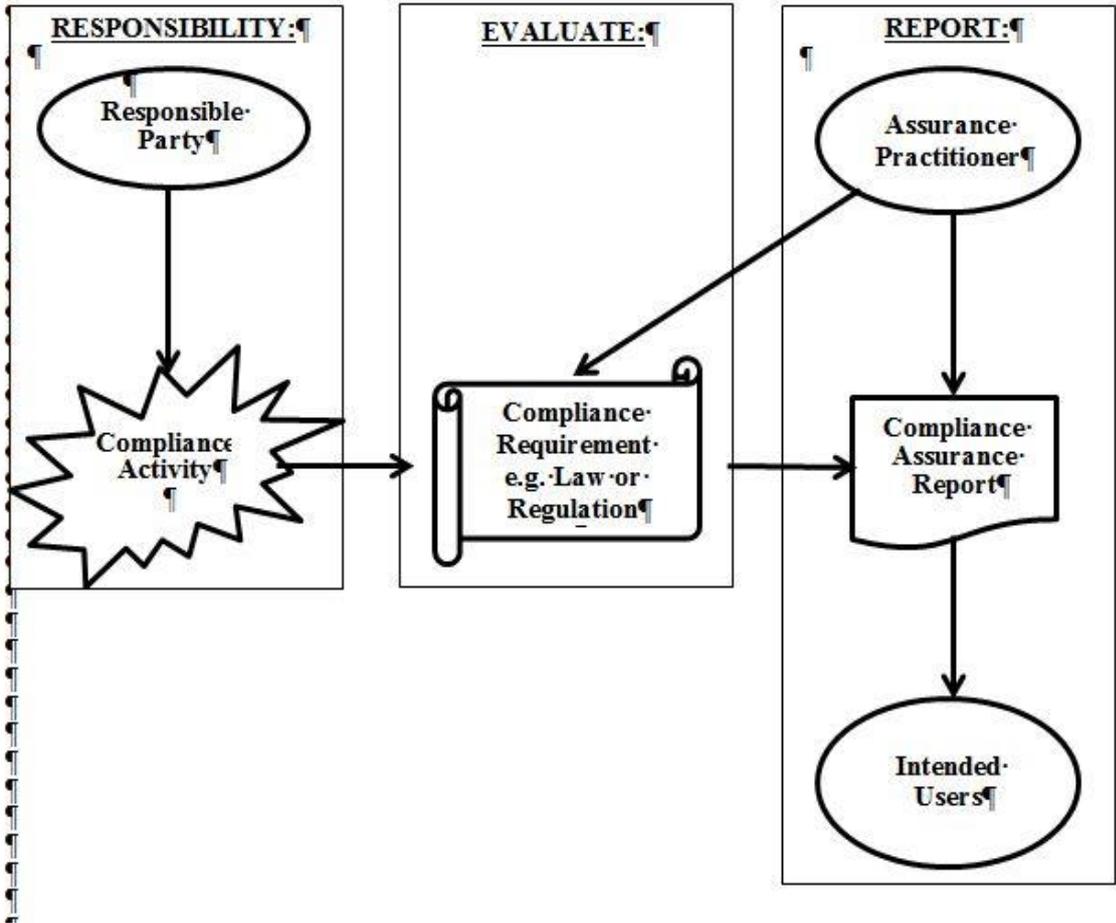
<sup>33</sup> See ASAE 3000, paragraphs A193-A200.

Appendix 1

(Ref: Para. )

**ROLES AND RESPONSIBILITIES – DIRECT AND ATTESTATION COMPLIANCE ENGAGEMENTS**

The diagram below illustrates the relationships in a direct and attest<sup>ation</sup> compliance engagement conducted by an Assurance Practitioner.



Under a direct engagement, the Assurance Practitioner evaluates the compliance activity, conducted by the responsible party against the compliance requirement.

Under an attestation engagement, the Responsible Party evaluates the compliance activity against the compliance requirements and provides a statement on the compliance outcome.

In both attestation and direct engagements the Assurance Practitioner evaluates the compliance activity against the compliance requirement(s) and obtains assurance on which to base their compliance assurance report. The assurance report is provided to the intended users.

**NATURE OF ASSURANCE ENGAGEMENTS ON COMPLIANCE**

**Scope of the Engagement**

A summary of the scope of assurance engagements which may be conducted with respect to compliance is set out in the following table:

<b>Scope of Engagement / Compliance objective</b>	<b>Compliance Requirement</b>	<b>Subject Matter / Compliance Activity</b>	<b>Criteria for Evaluating Compliance Activity</b>	<b>Compliance Outcome of the Evaluation (Subject Matter Information)</b>	<b>Assurance Conclusion</b>
Compliance of the Real Estate Trust with the requirements of the property Agents and Motor dealers Act 2000 (the “Act”)	<u>Applicable compliance requirements as specified under s407 of the Act</u>  <u>As an example: maintenance and controls over the Trustee Bank Account</u>	Trustee Account procedures  Trustee Bank Account and cash book procedures	s407 of the Act	Evaluator’s Statement or assurance practitioner’s conclusion whether the Trust has complied in all material respects with the Act.	Reasonable Assurance – complied in all material respects with the Act.
Compliance of the Registered Superannuation Entity (RSE) with the requirements of the Superannuation Industry (Supervision) Act 1993 (SIS Act), Superannuation Industry (Supervision) Regulations, FSCODA Reporting Standards, Corporations Act 2001 (Corporations Act) and Corporations Regulation 2001 (Corporation Regulations)	<u>Applicable compliance requirements of the SIS Act, SIS Regulations, FSCODA, Corporations Act and Corporations Regulation, conditions C1, C5, E1, F1, G1 contained in s29EA of the Act.</u>	As an example: RSE procedures covering: <ul style="list-style-type: none"> <li>• minimum liquid assets</li> <li>• bank accounts</li> <li>• net tangible assets</li> <li>• approved guarantee</li> </ul>	Relevant specific sections of:  SIS Act SIS Regulations Corporations Act Corporation Regulations FSCODA Reporting Standards  Conditions imposed under s29EA of the Act	Evaluator’s Statement or assurance practitioner’s conclusion whether the RSE has complied in all material respects with the requirements of the applicable SIS Act, SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations, conditions imposed under s 29EA of the Act.	Reasonable Assurance – complied in all material respects with requirements of the applicable SIS Act, SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations, conditions imposed under s29EA of the Act.

**Proposed Standard on Assurance Engagements ASAE 3100**  
***Compliance Engagements***

<b><u>Scope of Engagement / Compliance objective</u></b>	<b><u>Compliance Requirement</u></b>	<b><u>Subject Matter / Compliance Activity</u></b>	<b><u>Criteria for Evaluating Compliance Activity</u></b>	<b><u>Compliance Outcome of the Evaluation (Subject Matter Information)</u></b>	<b><u>Assurance Conclusion</u></b>
Compliance of a General Insurer or Insurance Group with the requirements of Prudential Standard GPS 220 <i>Risk Management</i> to maintain a Risk Management Strategy (RMS) and Prudential Standard GPS 230 <i>Reinsurance Management</i> to maintain a Reinsurance Management Strategy (REMS)	<u>Applicable compliance requirements as specified in GPS 220 and GPS 230.</u>	General Insurers or Insurance Groups maintenance of an RMS and a REMS.	GPS 220 Risk Management (RMS) and GPS 230 Reinsurance Management (REMS)	Evaluators' Statement or assurance practitioner's conclusion whether the General Insurer or Insurance Group has complied in all material respects with its RMS and REMS.	Limited Assurance – nothing has come to our attention that causes us to believe that for [the period] the General Insurer or Insurance Group did not comply in all material respects with its RMS and REMS.

Draft

**STANDARDS APPLICABLE TO ENGAGEMENTS ON COMPLIANCE**

		APPLICABLE AUASB STANDARDS				
		ASAE 3000 Assurance Engagements (not Historical Financial Info)	ASAE 3100 Assurance Engagements on Compliance (This ASAE)	ASAE 3402 Controls at a Service Organisation	ASAE 3150 Controls Engagements	ASRS 4400 Agreed-upon Procedures
<b>Subject Matter of Compliance Assurance Engagement</b>	1. Entity's compliance with:					
	- Laws and regulation	✓	✓			
	- Contractual obligations	✓	✓			
	- Policies and procedures	✓	✓			
	2. Entity's controls over compliance with requirements <sup>34</sup>	✓			✓	
	3. Entity's compliance with requirements specifying controls	✓	✓			
	4. Service Organisation's controls:					
	- Relevant to user entities' non-financial reporting, services or functions	✓			✓	
	- Relevant to user entities' financial reporting	✓		✓		
	5. Controls over economy, efficiency or effectiveness	✓			✓	
6. Procedures restricted to those specified by engaging party					✓	

<sup>34</sup> Where controls not specified in law, regulation or quasi-regulation.

**Appendix 4**

(Ref: Para. )

**EXAMPLE ENGAGEMENT LETTER**

**Appendix 54**

(Ref: Para. )

**EXAMPLE ASSURANCE REPORTS ON COMPLIANCE**

**Appendix 65**

(Ref: Para. )

**EXAMPLE MODIFIED REASONABLE ASSURANCE REPORTS ON  
COMPLIANCE**

**Tables of Differences — ASAE 3100 and Existing ASAE 3100**

*Summary of Main Differences — ASAE 3100 and Existing ASAE 3100*

The table below details the main differences (excluding editorial amendments) between this proposed Standard on Assurance Engagements and existing ASAE 3100.

Item #	New Standard Para. No.	Requirements/Significant Guidance Extract	Commentary

Draft