

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

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**Australian Government**

**Auditing and Assurance Standards Board**

## **Commenting on this Exposure Draft**

Comments on this Exposure Draft should be received by no later than 15 February 2016. Comments should be addressed to:

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

## **Formal Submissions**

Submissions should be lodged online via the ‘Work in Progress-Open for Comment’ page of the AUASB website ([www.auasb.gov.au/Work-In-Progress/Open-for-Comment.aspx](http://www.auasb.gov.au/Work-In-Progress/Open-for-Comment.aspx)) as a PDF document and Word document.

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)

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## **Contact Details**

Auditing and Assurance Standards Board  
Podium Level  
Level 14, 530 Collins Street  
Melbourne Victoria 3000  
AUSTRALIA

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

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

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## 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 proposed 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 January 2017 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 ~~15XX February~~ **December 2016**. 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. Are the considerations for conducting a direct engagement adequately differentiated from an attestation engagement?

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5. Are the procedures required for limited and reasonable assurance appropriate and adequately distinguished?
6. What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the ~~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?
7. Are there any other significant public interest matters that constituents wish to raise?

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.

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**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.

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

This Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* has been formulated for Australian public interest purposes and 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).

This Standard does, however, reflect certain aspects of other Australian ASAEs, which reproduce substantial parts of the equivalent ISAEs issued by the IAASB and published by IFAC, including ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

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# STANDARD ON ASSURANCE ENGAGEMENTS ASAE 3100

## *Compliance Engagements*

### Application

1. This Standard on Assurance Engagements applies to limited and reasonable assurance engagements to provide an assurance report on an entity's compliance with the compliance requirements as evaluated against the suitable criteria. (Ref: Para. A1)

### Operative Date

2. This Standard on Assurance Engagements is operative for assurance engagements commencing on or after 1 January 2017, 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 entity has complied in all material respects, with the compliance requirements, as evaluated against the suitable criteria achieved the intended outcomes, expressed as compliance in all material respects,~~ throughout the period or at a date. In planning and performing the compliance engagement, the assurance practitioner gains an understanding of the compliance framework and relevant compliance activities undertaken by the entity to meet the compliance requirements. A table showing the nature of assurance engagements on compliance is contained in Appendix 2.
4. This ASAE addresses assurance engagements on compliance: (Ref: Para. A2-A5) ~~of an activity:~~
  - (a) With the compliance requirements which are evaluated against suitable criteria evaluated against the achievement of either overall compliance objectives or compliance requirements;
  - (b) Providing a limited or reasonable assurance conclusion;
  - (c) For either restricted use, by those charged with governance of the entity or specified third parties, or to be publicly available; and
  - (d) Either based on an attestation engagement or a direct engagement. (Ref: Para. -17(a), 17(g), A4)
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 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 are would be agreed with the engaging party.

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

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7. An entity may have an obligation to comply with externally and/or internally established requirements. These requirements may be established through law and regulation, contractual arrangements or internally established requirements, for example company policies.
8. The style and content of reports for compliance engagements are most commonly not prescribed by a statutory authority, however, in limited circumstances this may be the case e.g. Australian Prudential Regulatory Authority (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 Assurance Engagements Other than Audits or Reviews of Historical Financial Information (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 for Assurance Engagements, which defines and describes the elements and objectives of an assurance engagement, provides the context for understanding this ASAE and ASAE 3000.
10. This ASAE requires the assurance practitioner to apply the Compliance with ASAE 3000 requirement to comply, 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 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Financial Information, Other Assurance Engagements and Related Services Engagements.
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 RegulatorsParliament, Government or other users in conjunction with assurance conclusions on financial reports, other historical financial information, and compliance with other requirements, controls and/or other subject matters. In these engagements the subject matter and 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 3. (Ref. Para. A1)

## Objectives

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 the compliance requirements as evaluated against the suitable criteria;
  - (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 undertaken to meet the compliance requirements, 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 compliance activity achieved its compliance objectives by meeting the compliance requirements~~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 whether the compliance activity~~’s~~ achieved its compliance objectives; or
  - (b) ~~In~~ a direct engagement, by the assurance practitioner and presented in the assurance conclusion~~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 compliance activity achieved its compliance objectives~~outcomes~~ by meeting the compliance requirements.

## 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, measures or evaluates the compliance activity 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 addresses ~~may be phrased in terms of~~ the activity’s compliance activity or the Statement of the responsible entity or evaluator. (Ref: Para. 4(d), A4)
  - (b) Criteria—The benchmarks, framework or legislation used to ~~measure or~~ evaluate whether the compliance requirement has been met~~underlying subject matter~~. The “applicable criteria” are the criteria used for the particular engagement. (Ref: Para. –22, A13)

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<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.

- (c) Compliance engagement—An assurance engagement ~~in which an assurance practitioner expresses a conclusion after evaluating an entity’s compliance with the compliance requirements as measured by the suitable criteria to conclude on whether an activity has achieved the compliance requirements, which reflect the activity’s intended outcome/s.~~
- (d) Compliance framework—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.
- (f) Compliance requirement(s)—~~The requirements~~May be established ~~inexternally through laws, and~~regulations, other statutory requirements (e.g. ASIC Class Orders and Regulatory Guides and APRA Prudential Standards), contractual arrangements, ministerial directives, industry or professional obligations or internally via company policies, procedures and frameworks.
- (g) Direct engagement on compliance—A reasonable or limited assurance engagement in which the assurance practitioner evaluates the ~~activity’s~~ compliance ~~activity~~ against the suitable criteria. The outcome of the assurance practitioner’s evaluation (the subject matter information) is expressed in the assurance practitioner’s conclusion.
- (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 assurance 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) 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) 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) 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 (compliance outcome) is materially misstated or non-compliant. 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 (compliance outcome) to a degree that is clearly more than inconsequential.

~~(m)~~(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 ~~61XX~~, 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 requirements and~~ compliance activities as designed to ~~meet~~achieve each compliance requirement;
- (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 ~~62XX~~, 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.

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

- (i) in relation to potential (for risk assessment purposes) or detected (for evaluation purposes) ~~non-compliance 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 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.

~~(o)~~(p) Misstatement—~~For attestation engagements on compliance, a~~ difference between the ~~compliance outcome~~ (subject matter information) ~~(compliance outcome)~~ and the evaluation of the ~~compliance activity~~ (underlying subject matter) ~~(compliance activity)~~ in accordance with the criteria. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions.

~~(p)~~(q) Non-compliance—~~For both attestation and direct engagements on compliance, a~~ failure to ~~meet~~achieve a compliance ~~requirement~~outcome in whole or in part.

~~(q)~~(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.
- (~~s~~)(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 ~~16(a).XX~~.
- (~~+~~)(v) Responsible party—The party(~~ies~~) responsible for the underlying subject matter, being the ~~activity’s~~ compliance ~~activity~~ in a compliance engagement.
- (~~+~~)(w) Short-form report—Assurance report including only the matters required under paragraph ~~61XX~~ of this ASAE.
- (~~w~~)(x) Statement—The outcome in writing of the responsible party or evaluator’s evaluation of the ~~activity’s~~ compliance ~~activity against the suitable criteria~~, provided to the assurance practitioner in an attestation engagement. A Statement is the subject matter information in an attestation engagement on compliance.
- (~~x~~)(y) ~~Subject matter information (Compliance Outcome (subject matter information))~~—The outcome of the evaluation of the underlying subject matter (~~compliance activity~~) against the ~~suitable~~ criteria. 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) ~~Compliance Activity (sSubject matter or underlying subject matter (Compliance Activity))~~—The activity that ~~is undertaken to meet the compliance requirement(s) and is~~ evaluated against the suitable criteria or 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. (Ref: Para. A1, [Appendix 3](#))

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

## Ethical Requirements

19. As required by ASAE 3000, the assurance practitioner shall comply with relevant ethical requirements related to assurance engagements.<sup>5</sup> (Ref: Para. A6)

## 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.

### *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 the compliance 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 compliance objectives/outcomes being sought are achieved ~~if the subject matter is not appropriate. If the subject matter is not appropriate, the assurance practitioner shall not accept the engagement or, if this is determined after accepting the engagement, either withdraw from the engagement or issue a modified conclusion.~~ (Ref: Para. A9-A11)

### *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> ~~(Ref: Para. 17(b)17(b), A12-A16). The criteria in a compliance engagement are the compliance requirements, whether overall or specific 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 assurance practitioner shall obtain the agreement of the responsible party, that it acknowledges and understands its responsibility:
- (a) ~~I~~n an attestation engagement, for evaluating the ~~activity's~~ activity against the compliance requirements and providing a written Statement regarding the outcome of that evaluation and for having a reasonable basis for the written Statement;
  - (b) ~~F~~or identifying suitable compliance 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) ~~F~~or providing the assurance practitioner with:

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<sup>5</sup> See ASAE 3000, paragraphs Aus 20.1 and ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other assurance Engagements*.

<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.

- (i) ~~A~~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) ~~A~~additional information that the assurance practitioner may request from the responsible party for the purposes of the assurance engagement; and
- (iii) ~~U~~nrestricted 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) ~~T~~he ~~objective(s)~~~~purpose~~ of the engagement;
- (b) ~~W~~hether the engagement is a reasonable or limited assurance engagement;
- (c) ~~W~~hether 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 ~~activity~~ or Statement and whether that Statement will be available to intended users or only referenced in the assurance report; (Ref: Para. A17)
- (d) ~~T~~he compliance activity to be evaluated in the engagement;
- (e) ~~T~~he period ~~or the date~~ to be covered by the engagement; (Ref: Para. A18)
- (f) ~~T~~he compliance requirements against which the compliance activity will be evaluated;
- (g) ~~T~~he intended users of the assurance report;
- (h) ~~T~~he content of the assurance report, including whether it will be a short-form or long form report, including additional information such as the compliance requirements, procedures conducted, detailed findings and recommendations to meet the needs of the intended users; and (Ref: Par. A20)
- (i) ~~A~~ny other matters required by law or regulation (e.g. reporting all matters of non-compliance ~~identified~~ to the regulator) to be included in the terms of engagement. (Ref: Para. 26)

#### *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. A16)

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

26. If ~~law~~~~Parliament, legislation~~ or regulation prescribe the compliance requirements for evaluation 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: (Ref: Para. A17, A49)

- (a) ~~N~~ot accept the engagement unless additional explanation in the report mitigates these circumstances; or

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

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- (b) **N**ot 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, 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> (Ref: Para. A23)
- 30. 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 to achieve the agreed overall compliance objectives of the engagement. (Ref: Para. A22)

*Materiality*

- 31. The assurance practitioner shall consider materiality, as required by ASAE 3000,<sup>13</sup> when determining the nature, timing and extent of procedures. (Ref: Para. A25-A28)
- 32. The assurance practitioner shall identify any non-compliance as material if it is significant to the achievement of the compliance objectives to be concluded upon. During the engagement the assurance practitioner shall reassess the materiality of any non-compliance with compliance requirements if matters come to their attention which indicate that the basis on which the materiality was determined has changed.
- 33. The assurance practitioner shall also consider materiality when evaluating the effect of accumulated deficiencies in the compliance framework or non-compliance with the compliance requirements. Material deficiencies or non-compliance are those which could significantly impact the achievement of compliance **objectives** and reasonably be expected to influence relevant decisions of the intended users. (Ref: Para. A42)

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

Limited Assurance	Reasonable Assurance
34L. The assurance practitioner shall obtain an understanding of the entity’s compliance	34R. The assurance practitioner shall obtain an understanding of the entity’s compliance

<sup>10</sup> See ASAE 3000, paragraphs 31-36.  
<sup>11</sup> See ASAE 3000, paragraphs 37-39.  
<sup>12</sup> See ASAE 3000, paragraph 40.  
<sup>13</sup> See ASAE 3000, paragraph 44.

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Limited Assurance	Reasonable Assurance
<p>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: (Ref: Para. A29-A31)</p> <p>(a) <del>F</del>for a direct engagement, consider whether the identification, selection or development of compliance requirements is appropriate, and/or select or develop further suitable compliance <del>criteria</del>requirements;</p> <p>(b) <del>F</del>for both attestation and direct engagements:</p> <p>(i) <del>I</del>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</p> <p>(ii) <del>U</del>se as a basis for designing and performing assurance procedures to respond to the risks identified in paragraph <del>34LXX</del>(b)(i).</p>	<p>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: (Ref: Para. A29-A31)</p> <p>(a) <del>F</del>for a direct engagement, consider whether the identification, selection or development of compliance requirements is appropriate, and/or select or develop further suitable compliance <del>criteria</del>requirements;</p> <p>(b) <del>F</del>for both attestation and direct engagements:</p> <p>(i) <del>I</del>identify and assess the risks that may cause non-compliance with each of the compliance requirements to be concluded upon; and</p> <p>(ii) <del>U</del>se as a basis for designing and performing assurance procedures to respond to the risks identified in paragraph <del>34RXX</del>(b)(i); and</p> <p>(c) <del>O</del>btain an understanding of the relevant <del>internal</del> controls <del>over</del>over <del>achieving</del> the compliance <del>activity</del>to <del>meet the compliance</del> requirements, evaluating the design of those controls and determining whether they have been implemented.</p>

*Identifying Risks of Fraud*

35. 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 requirements not being ~~met~~achieved due to fraud: (Ref: Para. A32)
- (a) ~~M~~make enquiries of management regarding:
- (i) ~~M~~management’s assessment of the risk that controls may be circumvented due to fraud, including the nature, extent and frequency of such assessment;
- (ii) ~~M~~management’s process for identifying and responding to the risks of fraud;
- (iii) ~~M~~management’s communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud; and

- (iv) **M**management's communication, if any, to employees regarding its views on corrupt or fraudulent business practices and unethical behaviour;
- (b) **M**ake 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) **M**ake 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) **O**btain 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) **C**onsider whether other information obtained by the assurance practitioner indicates risks of compliance requirements not being **met** due to fraud, for which mitigating controls are necessary;
- (f) **E**valuate 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) **I**dentify 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*

36. 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. A33)
- (a) **I**ts impact on the compliance framework and the components within that framework, including the control environment, risk assessment, information and communication, monitoring activities and control activities in relation to the framework; and
  - (b) **I**ts effect on procedures to be performed by the assurance practitioner.
37. If the assurance practitioner plans to use the work of the internal audit function, in accordance with paragraph 39, the assurance practitioner shall evaluate it as required by ASAE 3000.<sup>14</sup> (Ref: Para. A34)
38. 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 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. A34)

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

39. 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

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

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

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nature, timing or extent of the assurance practitioner’s procedures and in doing so, shall consider: (Ref: Para. A34, A40-A41)

- (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**

- 40. Based on the assurance practitioner’s understanding obtained under paragraph 34L and 34R, XX the assurance practitioner shall perform assurance procedures to respond to identified or assessed risks ~~identified~~ in paragraph 34LXX(b) to obtain limited or 34R(b) to obtain reasonable assurance to support the assurance practitioner’s conclusion. (Ref: Para. A35-A36)
- 41. 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. A37)

*Responses to Assessed Risks of Fraud*

- 42. The assurance practitioner shall treat those assessed risks of compliance requirements not being ~~met~~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. (Ref: Para. A32)

*Obtaining Evidence Regarding the Compliance Activity*

- 43. When reporting on compliance ~~activities~~ over the period or at a date, the assurance practitioner shall evaluate those compliance activities that the assurance practitioner has determined are necessary to ~~meet~~achieve the compliance requirements identified, and assess their compliance throughout the period or at a date. (Ref: Para. A35)

Limited Assurance	Reasonable Assurance
<p>44L. The nature, timing and extent of evaluation of compliance activities, shall ordinarily be limited to discussion 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 non-compliance. 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. A35)</p>	<p>44R. The nature, timing and extent of <u>testing and</u> evaluation of compliance activities, shall ordinarily include, in addition to discussion with entity personnel and observation of the activity in operation for non-compliance, 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 a <del>conclusion</del><u>opinion</u>. The results of exception reporting, monitoring or other management controls may be examined to reduce the extent of direct <u>testing and</u> evaluation of the operation of the compliance activity but shall not eliminate it entirely. (Ref: Para. A35)</p>

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Limited Assurance	Reasonable Assurance
<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 non-compliance <del>with in</del> the compliance <del>requirements</del>activity. If the assurance practitioner determines that additional assurance procedures are required to dispel or confirm a suspicion that a material <del>non-compliance breach in the compliance activity</del> 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. A36-A37)</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 non-compliance <del>with in</del> the compliance <del>requirements</del>activity. (Ref: Para. A36)</p>
<p style="text-align: center; font-size: 48pt; opacity: 0.5;">Draft</p>	<p>46R. When determining the extent of <del>testing and</del> evaluation of compliance activities, the assurance practitioner shall consider matters including the characteristics of the population to be <del>tested and</del> evaluated, which includes the nature of the <del>compliance</del> activity, the frequency of their occurrence (for example, monthly, daily, a number of times per day), and the expected rate of non-compliance. Some <del>compliance</del> activities operate continuously, while others operate only at particular times, so the <del>testing and</del> evaluation of compliance activities shall be performed over a period of time that is adequate to determine that they are compliant. (Ref: Para. A37)</p>

**Sampling**

47. When the assurance practitioner uses sampling to select compliance activities for testing over a period, the assurance practitioner shall: (Ref: Para. 46R)
- (a) ~~C~~onsider the purpose of the procedure and the characteristics of the activity from which the sample will be drawn when designing the sample;
  - (b) ~~D~~etermine a sample size sufficient to reduce sampling risk to an acceptably low level;
  - (c) ~~S~~elect 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) ~~I~~f unable to apply the designed procedures, or suitable alternative procedures, to a selected item, treat that item as a deviation.

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### *Evaluating the Evidence Obtained* (Ref: Para. A42-A43)

48. 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 instances of non-compliance with s within the compliance activity as evaluated against the compliance requirements.

48-49. Evaluation of evidence obtained by the assurance practitioner shall include any impact of corrected misstatements identified during the compliance engagement.

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

49-50. ~~IBeyond 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 other laws and regulations, whether due to compliance activities, the controls themselves not meeting compliance requirements or a failure of appropriate procedures and controls to prevent or detect non-compliance by the entity, the assurance practitioner shall:

- (a) Obtain an understanding of the nature of the act and the circumstances in which it occurred and if the assurance practitioner suspects there may be non-compliance;
- (b) ~~D~~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;
- (c) ~~D~~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;
- (d) ~~I~~f sufficient information regarding suspected non-compliance cannot be obtained, evaluate the effect of insufficient evidence on the assurance conclusion report;
- (e) ~~E~~valuate the implications of non-compliance in relation to other aspects of the engagement, including the risk assessment and the reliability of written representations; and
- (f) ~~C~~onsider the impact on the assurance practitioner's conclusion of identified non-compliance.

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

50-51. 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> (Ref: Para. A38)

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

51-52. 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> (Ref: Para. A39)

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

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

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

### Evaluation and Communication of Non-Compliance

- ~~52-53.~~ The assurance practitioner evaluates individually and in aggregate, whether non-compliance with the compliance requirements is material. (Ref: Para. A42)
- ~~53-54.~~ The assurance practitioner communicates these material non-compliances with the compliance requirements to the responsible party or those charged with governance as soon as practicable.

### Written Representations

- ~~54-55.~~ 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: (Ref: Para. A43)
- (a) ~~I~~In the case of an attestation engagement, reaffirms their Statement regarding the outcome of the responsible party's evaluation of the ~~activity's~~ compliance ~~activity~~ against the compliance requirements throughout the period ~~or at a date~~;
  - (b) ~~A~~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 ~~internal~~ controls to mitigate those risks, including the risk of fraud, so that those risks will not prevent achievement of the compliance ~~objectives~~requirements;
  - (c) ~~H~~Has provided the assurance practitioner with all relevant information and access agreed to, as set out in paragraph ~~23XX(cb)(iv)~~;
  - (d) ~~H~~Has disclosed to the assurance practitioner any of the following of which it is aware may be relevant to the engagement:
    - (i) ~~I~~Instances of non-compliance with the compliance requirements; or
    - (ii) ~~A~~Any events subsequent to the period ~~or date~~ covered by the assurance practitioner's ~~conclusion report~~ up to the date of the assurance report that could have a significant effect on the assurance practitioner's ~~conclusion report~~.

The assurance practitioner shall evaluate written representations in accordance with ASAE 3000. (Ref: Para. A44)

### Subsequent Events

- ~~55-56.~~ When relevant to the compliance engagement, the assurance practitioner shall consider the effect on the compliance outcome and on the assurance ~~conclusion 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 ~~conclusion report~~, that had they been known to the assurance practitioner at that date, may have caused the assurance practitioner to amend the assurance ~~conclusion report~~. 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. (Ref: Para. A46-A47)

### Forming the Assurance Conclusion

- ~~56-57.~~ 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

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

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>20</sup> The assurance practitioner shall qualify their conclusion if the possible effects of undetected non-compliance with the compliance requirements 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.

~~57-58.~~ When the assurance practitioner forms a conclusion in accordance with ASAE 3000,<sup>21</sup> the assurance practitioner shall evaluate the materiality, individually and in aggregate whether due to fraud or error, of any non-compliances with the compliance requirements.

~~58-59.~~ The assurance practitioner shall assess the impact of identified non-compliances ~~with~~~~in~~ ~~achievement of~~ the compliance requirements, which are material individually or in ~~aggregate combination~~, on the assurance practitioner's conclusion on the compliance of the activity. If the non-compliances identified are: (Ref: Para. A42-A43)

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

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

~~59-60.~~ The assurance practitioner shall prepare the assurance report in accordance with ASAE 3000<sup>22</sup> for attestation engagements and shall also apply those requirements for direct engagements.

#### *Assurance Report Content*

~~60-61.~~ For both attestation and direct engagements, the assurance practitioner shall include in the assurance report the basic elements required by ASAE 3000,<sup>23</sup> which are at a minimum:

- (a) ~~A~~a title, indicating that it is an independent assurance report;
- (b) ~~A~~an addressee;
- (c) ~~A~~an identification of whether reasonable or limited assurance has been obtained by the assurance practitioner;
- (d) ~~I~~identification of the compliance activity which is the subject matter of the engagement including:
  - (i) ~~T~~the distinguishing features of the compliance activity which was subject to the compliance engagement;
  - (ii) ~~T~~the period or date covered by the compliance engagement;
  - (iii) ~~I~~n the case of an attestation engagement, reference to the responsible party's Statement as required by paragraph ~~23XX(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) ~~I~~identification of the overall and/or specific compliance requirements used as criteria for evaluating the compliance of the activity and the party specifying those compliance requirements;

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<sup>20</sup> See ASAE 3000, paragraph 66.

<sup>21</sup> See ASAE 3000, paragraphs 64-65.

<sup>22</sup> See ASAE 3000, paragraphs 67-69.

<sup>23</sup> See ASAE 3000, paragraph 69.

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- (v) ~~If~~ appropriate, a description of any significant inherent limitations associated with the evaluation of the ~~activity's~~ compliance activity against the compliance requirements;
- (e) ~~Aa~~ statement that the responsible party or evaluator is responsible for:
  - (i) ~~In~~ an attestation engagement:
    - a. ~~P~~roviding a Statement with respect to the outcome of the evaluation of the ~~activity's~~ compliance activity against the compliance requirements;
    - b. ~~I~~dentifying the compliance 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. ~~T~~he compliance activity covered by the assurance practitioner's report;
    - b. ~~D~~esigning and implementing controls to enable ~~achievement of~~ the compliance requirements to be met and to monitor ongoing compliance ~~in achieving the compliance requirements~~;
- (f) ~~Aa~~ statement that the assurance practitioner's responsibility is to express a conclusion on ~~whether~~ the ~~activity's compliance in achieving the~~ compliance requirements have been met, as evaluated by the suitable criteria, in all material respects;
- (g) ~~Aa~~ statement that the engagement was performed in accordance with ASAE 3100 *Compliance Engagements*;
- (h) ~~Aa~~ statement that the firm of which the assurance practitioner is a member applies ASQC 1;
- (i) ~~Aa~~ statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements;
- (j) ~~Aa~~ 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 understanding the assurance practitioner's conclusion, the summary of the work performed shall state that: (Ref: Para. A50-A54)
  - (i) ~~T~~he 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) ~~C~~onsequently, 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) — where appropriate, a description of any significant, inherent limitation associated with the evaluation of compliance with the compliance requirements;~~
- ~~(+)(k)~~ ~~W~~hen 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

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restricting the use of the assurance report to those intended users or that purpose;  
(Ref: Para. A55)

~~(m)~~(l) **E**ither, 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 **entity complied with activity achieved** the compliance requirements throughout the period **or at a date**;

~~(n)~~(m) **W**hen the assurance practitioner expresses a modified conclusion, the assurance report shall contain:

(i) **A**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**a section that contains the assurance practitioner's modified conclusion;

~~(o)~~(n) **T**he assurance practitioner's signature, the date of the assurance report and the location in the jurisdiction where the assurance practitioner practices.

~~61-62.~~ If the assurance practitioner 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. (Ref: Para. A48)

~~62-63.~~ 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*

~~63-64.~~ The assurance practitioner shall include an Emphasis of Matter or Other Matter paragraph in the circumstances provided for in ASAE 3000<sup>24</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 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*

~~64-65.~~ If the assurance practitioner concludes that the **compliance** activity has not **metaachieved** the compliance requirements throughout the period **or at a date**; 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. (Ref: Para. A56-A58)

*Scope Limitation*

~~65-66.~~ 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

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<sup>24</sup> See ASAE 3000, paragraph 73.

shall not be accepted or continued past the current period, unless required to do so by law or regulation.

- 66-67. 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 instances of non-compliance/inefficiency within the compliance of the activity the compliance requirements, 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. (Ref: Para. A59)

### **Other Communication Responsibilities**

- 67-68. 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>25</sup> If during the course of the engagement the assurance practitioner identifies any non-compliance with the entity's compliance 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. (Ref: Para. A61)
- 68-69. 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. (Ref: Para. A60)
- 69-70. 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.

### **Documentation**

- 70-71. The assurance practitioner shall prepare documentation in accordance with ASAE 3000.<sup>26</sup> In documenting the nature, timing and extent of procedures performed as required by ASAE 3000, the assurance practitioner shall record (Ref: Para. A62):
- (a) The identifying characteristics of the ~~activity's~~ compliance activity 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.
- 71-72. 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.

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<sup>25</sup> See ASAE 3000, paragraph 78.

<sup>26</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** (Ref. Para. 3-13)

- 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 activities 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>27</sup> the responsible party may or may not be the engaging party, but is responsible for the compliance activities 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** (Ref. Para. 19)

- 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.

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<sup>27</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>28</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 controls, 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.

### Rational Purpose

- A8. When considering the acceptance of a limited assurance engagement on compliance, ASAE 3000 requires the assurance practitioner to determine whether a meaningful level of assurance is expected to be able to be obtained,<sup>29</sup> which may include whether a limited assurance engagement is likely to be meaningful to users. In making this assessment, the assurance practitioner considers the intended users of the assurance report and whether they are likely to understand the limitations of a limited assurance engagement, including the need to read the assurance report in detail to understand the assurance procedures performed and the assurance obtained.

### *Assessing the Appropriateness of the Subject Matter* (Ref: Para. 21)

- A9. 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.
- A10. 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.

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<sup>28</sup> See ASAE 3000, paragraph 32.

<sup>29</sup> See ASAE 3000, paragraph 24(b)(vi).

A11. 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* (Ref: Para. 22)

A12. 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.

A13. In the context of a compliance engagement, examples of suitable criteria include:

- Externally imposed criteria under law or directives, including:
  - 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 – Compliance Management Systems

A14. 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.

A15. 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. (Ref: Para. 25)

A16. 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.

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

*Agreeing on the Terms of the Engagement* (Ref: Para. 23-24)

- A17. When agreeing whether the engagement is to be conducted as an attestation or direct engagement, the assurance practitioner considers factors such as whether:
- (a) ~~T~~here is a regulatory requirement or users need an evaluation of the compliance activity by the responsible party or evaluator (Ref: Para. 26);
  - (b) ~~T~~he 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
  - (c) ~~I~~t 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.
- A18. The assurance practitioner considers the needs of users in agreeing the **date** or period to be covered by the assurance engagement, so that the report is not likely to be misleading.
- A19. 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.
- A20. 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.
- A21. An example engagement letter is contained in Appendix ~~4X~~.

**Planning and Performing the Engagement**

*Planning* (Ref: Para. 29-30)

- A22. 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.
- A23. 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.

A24. 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* (Ref: Para. 31-33)

- A25. 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.
- A26. 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.
- A27. 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 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.
- A28. Quantitative and qualitative factors which the assurance practitioner may consider when assessing materiality may include:
- The magnitude of the instances of detected or suspected non-compliance with the compliance requirements ~~impact of the compliance activity's performance~~.
  - ~~The relative importance of the matter to achieving the compliance activity's outcomes.~~
  - The financial impact of the ~~matter on the compliance activity~~ non-compliance on the entity as a whole.
  - The nature of the non-compliance – one off or systemic.
  - Evidence of a robust compliance framework in place to detect, rectify and report non-compliance.
  - Commonly accepted practices within the relevant industry.
  - 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*

(Ref: Para. 34)

A29. 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 ~~compliance objective criteria~~ and compliance ~~requirements~~~~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.

A30. 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) ~~T~~he entity's size and complexity;
- (b) ~~T~~he 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 ~~met~~~~achieved~~;
- (c) ~~T~~he extent to which IT is used; and
- (d) ~~T~~he documentation available.

A31. 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 ~~requirements~~~~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 ~~non-compliance~~~~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. 35, 42)

A32. 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 **metaachieved** due to fraud and thus is a significant risk.

*Obtaining an Understanding of the Internal Audit Function* (Ref: Para. 36-39)

- A33. 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.
- A34. 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**

- A35. 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.
- A36. 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. 41)

- A37. 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) **T**he 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) ~~I~~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) ~~S~~Selecting fewer items for examination;
  - (ii) ~~P~~Performing fewer types of procedures; or
  - (iii) ~~P~~Performing procedures at fewer locations.

**Work Performed by an Assurance Practitioner's Expert** (Ref. Para. 51)

A38. 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.

**Work Performed by Another Assurance Practitioner or a Responsible Party's or Evaluator's Expert, or an Internal Auditor** (Ref. Para. 52)

A39. 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) ~~T~~The nature and complexity of the compliance activity to which the expert's work relates;
- (b) ~~T~~The risks of a material deficiency in the compliance framework or non-compliance with the compliance requirements during the period or a date;
- (c) ~~T~~The availability of alternative sources of evidence or mitigating controls;
- (d) ~~T~~The nature, scope and objectives of the expert's work;
- (e) ~~W~~Whether the expert is employed by the entity, or is a party engaged by it to provide relevant services;
- (f) ~~T~~The extent to which responsible party or evaluator can exercise control or influence over the work of the expert;
- (g) ~~W~~Whether the expert is subject to technical performance standards or other professional or industry requirements;
- (h) ~~T~~The nature and extent of any controls within the entity over the expert's work;
- (i) ~~T~~The assurance practitioner's knowledge and experience of the expert's field of expertise; and
- (j) ~~T~~The assurance practitioner's previous experience of the work of that expert.

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

*Work Performed by the Internal Audit Function* (Ref: Para. 36-39)

- A40. 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.
- A41. 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**

- A42. In evaluating any non-compliance (corrected or un-corrected) 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. (Ref: Para. 33, 48-49)
- A43. 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. (Ref: Para. 45)

**Written Representations** (Ref: Para. 55)

- A44. For application material on using written representations refer to ASAE 3000.<sup>32</sup>
- A45. 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** (Ref: Para 56)

- A46. 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 requirements.

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

A47. 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, 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** (Ref: Para. 60-63)

##### *Assurance Report Content*

A48. 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 ~~61XX~~ 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.

A49. 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. (Ref: Para. 26)

##### *Summary of the Work Performed* (Ref: Para 61(j))

A50. 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 criteria and the compliance requirements and the risks that threaten ~~achievement of~~ those compliance requirements not being met.

A51. 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.

A52. Factors to consider in determining the level of detail to be provided in the summary of the work performed include:

- (a) ~~C~~ircumstances specific to the entity (e.g. the maturity of the entity's compliance framework compared to those typical in the sector);
- (b) ~~S~~pecific engagement circumstances affecting the nature and extent of the procedures performed; and
- (c) ~~T~~he intended users' expectations of the level of detail to be provided in the report, based on market practice, or applicable law or regulation.

A53. 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.

A54. Illustrative examples of assurance practitioner's reports are contained in Appendix ~~5X~~.

*Intended Users and Specific Purpose of the Assurance Report* (Ref: Para. 61(k))

A55. 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. 65-67)

A56. Modifications to the assurance report may be made in the following circumstances:

- (a) ~~A~~a qualified conclusion may be issued if the following matters are material but not pervasive:
  - (i) ~~U~~nsuitable criteria mandated by legislation or regulation;
  - (ii) ~~S~~cope limitation;
  - (iii) ~~N~~on-compliance with the compliance requirements;
  - (iv) ~~M~~isstatement in the Statement;
- (b) ~~A~~n adverse conclusion may be issued if the following matters are both material and pervasive:
  - (i) ~~U~~nsuitable criteria mandated by legislation or regulation;
  - ~~(i)~~(ii) ~~Non-compliance with the compliance requirements~~;
  - ~~(ii)~~(iii) ~~S~~ystemic deficiency in the compliance framework;
  - ~~(iii)~~(iv) ~~M~~isstatement in the Statement;
- (c) ~~A~~a disclaimer may be issued if there is a limitation of scope which is both material and pervasive.

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- A57. Illustrative examples of elements of modified assurance practitioner's reports are contained in Appendix ~~6X~~.
- A58. 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.
- A59. 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** (Ref: Para. 68-70)

- A60. Appropriate actions to respond to the circumstances identified in paragraph ~~69XX~~ 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.
- A61. 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** (Ref: Para. 71-72)

- A62. For application material on preparing and maintaining documentation refer ASAE 3000.<sup>33</sup>

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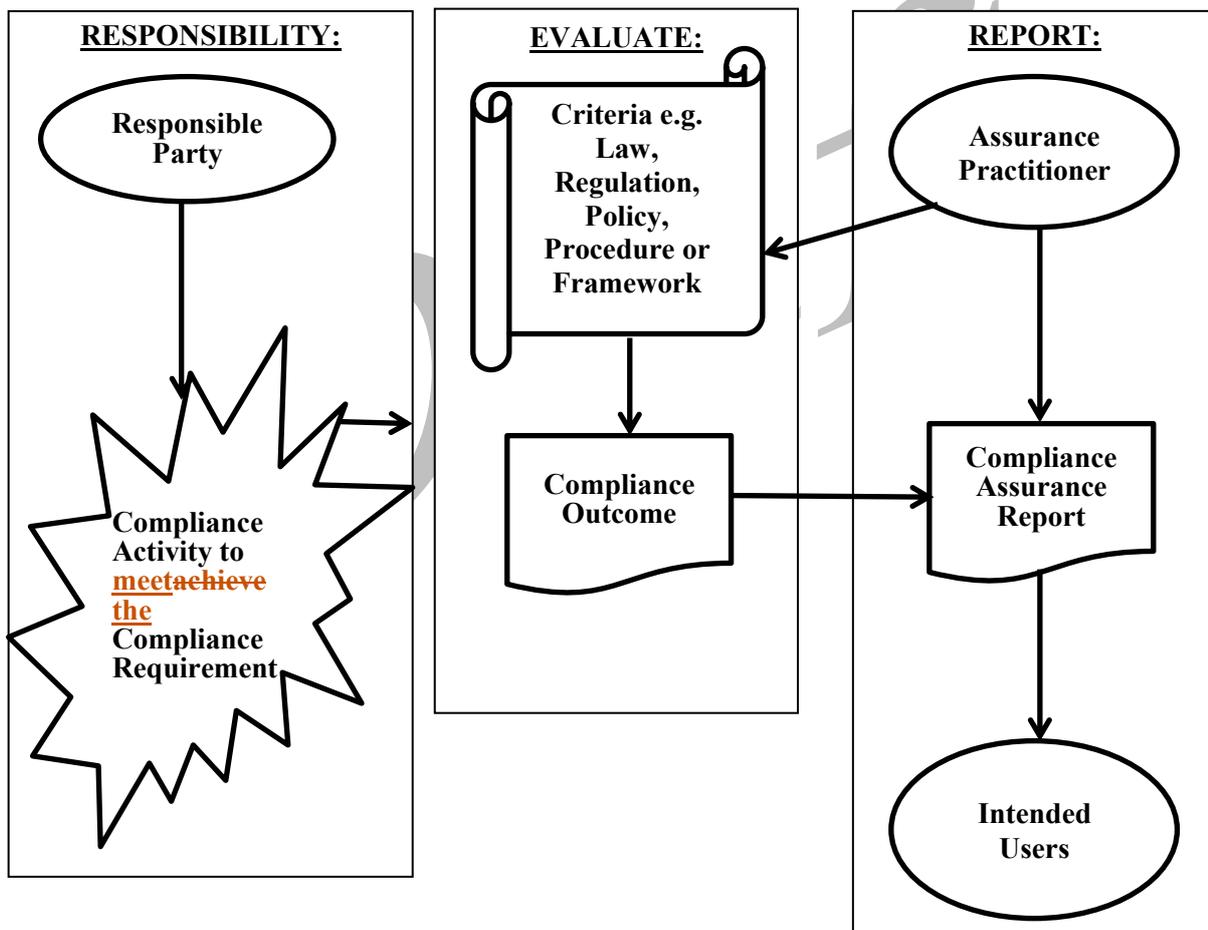
<sup>33</sup> See ASAE 3000, paragraphs A193-A200.

Appendix 1

(Ref: Para. A5)

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

The diagram below illustrates the relationships in a direct and attestation compliance engagement conducted by an Assurance Practitioner.



Under a direct engagement, the Assurance Practitioner evaluates the compliance activity<sup>5</sup> conducted by the responsible party to meet/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) using the criteria, and obtains assurance on which to base their compliance assurance conclusion/assurance report. The compliance 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:

Scope of Engagement / Compliance objective	Criteria for Evaluating Compliance Activity	Compliance Requirement	Subject Matter / Compliance Activity	Compliance Outcome of the Evaluation (Subject Matter Information)	Assurance Conclusion
Compliance of the Real Estate Trust with the requirements of the <i>Property Agents and Motor dealers Act 2000</i> (the "Act")	<i>s407 of the Act</i> <i>Property Agents and Motor Dealers Act 2000</i>	Applicable compliance requirements as specified under s407 of the Act.  As an example: maintenance and controls over the Trustee Bank Account.	Trustee Account procedures.  Trustee Bank Account and cash book procedures.	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 <i>s407 of the Act</i> .

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**Compliance Engagements**

Scope of Engagement / Compliance objective	Criteria for Evaluating Compliance Activity	Compliance Requirement	Subject Matter / Compliance Activity	Compliance Outcome of the Evaluation (Subject Matter Information)	Assurance Conclusion
<p>Compliance of the Registered Superannuation Entity (RSE) with the <u>applicable provisions</u> requirements of the <i>Superannuation Industry (Supervision) Act 1993</i> (SIS Act), <i>Superannuation Industry (Supervision) Regulations</i>, <i>FSCODA Reporting Standards</i>, <i>Corporations Act 2001</i> (Corporations Act) and <i>Corporations Regulation 2001</i> (Corporation Regulations)</p>	<p><u>Applicable Relevant sections of:</u></p> <p>SIS Act;  SIS Regulations;  Corporations Act;  Corporation Regulations;  FSCODA Reporting Standards; <u>and</u></p> <p>Conditions <u>C1, C5<sup>34</sup>, E1, F1 and G1</u> imposed under s29EA of the <u>SIS Act</u>.</p>	<p><u>Applicable compliance requirements as specified under the relevant sections of:</u></p> <p><u>SIS Act, SIS Regulations, FSCODA, Corporations Act and Corporations Regulation, Example: Conditions imposed under C5<sup>34</sup> of SIS Act; C5, E1, F1, G1 contained in s29EA of the Act</u></p> <ul style="list-style-type: none"> <li><u>all assets of RSE, including all bank accounts are 'custodially held' as defined in trustee's RSE licence.</u></li> </ul>	<p>As an example:</p> <p>RSE procedures <u>and controls</u> covering:</p> <ul style="list-style-type: none"> <li><u>minimum liquid assets</u></li> <li>bank accounts</li> <li><u>net tangible assets</u></li> <li><u>approved guarantee other assets</u></li> </ul>	<p>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 s29EA of the <u>SIS Act</u>.</p>	<p>Reasonable Assurance – complied in all material respects with <u>requirements of the Applicable SIS Act, SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations, condition C5s</u> imposed under s 29EA of the <u>SIS Act</u>.....<u>and the applicable provisions of the SIS Act, SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations, other conditions imposed under s29EA of the SIS Act.</u></p>

<sup>34</sup> Condition C5 under s29EA of the SIS Act has been selected as one example of a compliance requirement.

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

<b>Scope of Engagement / Compliance objective</b>	<b>Criteria for Evaluating Compliance Activity</b>	<b>Compliance Requirement</b>	<b>Subject Matter / Compliance Activity</b>	<b>Compliance Outcome of the Evaluation (Subject Matter Information)</b>	<b>Assurance Conclusion</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)	GPS 220 <i>Risk Management</i> (RMS) and GPS 230 <i>Reinsurance Management</i> (REMS)	Applicable compliance requirements as specified in GPS 220 and GPS 230.	General Insurers or Insurance Groups maintenance of an RMS and a 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.

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**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>35</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>35</sup> Where controls not specified in law, regulation or quasi-regulation.

### **EXAMPLE ENGAGEMENT LETTERS**

Example 1: Engagement Letter for an Attestation Engagement for Limited Assurance on compliance with the [compliance requirements] as evaluated by the suitable criteria

Example 2: Engagement Letter for an Attestation Engagement for Reasonable Assurance on compliance with the [compliance requirements] as evaluated by the suitable criteria

Example 3: Engagement Letter for a Direct Engagement for Reasonable Assurance on compliance with the [compliance requirements] as evaluated by the suitable criteria

*The following examples of assurance practitioner's engagement letters are for guidance only and are not intended to be exhaustive or applicable to all situations.*

#### **Example 1: Engagement Letter for an Attestation Engagement for Limited Assurance on compliance with the [compliance requirements] as evaluated by the suitable criteria**

*To [the appropriate representative of management or those charged with governance of ABC or the engaging party]:*

*[Objective and scope of the engagement]*

You have requested that we undertake a limited assurance engagement on ABC's Statement [which will accompany our report] regarding the compliance with the [compliance requirements] as evaluated by the suitable criteria, which you will provide and which will accompany our report, as at [date] for the purpose of reporting to [identify intended users: the Board of Directors/Regulator/Customers of ABC].

We are pleased to confirm our acceptance and our understanding of this limited assurance engagement by means of this letter. Our assurance engagement will be conducted with the objective of reaching a conclusion on [ABC's Statement regarding]<sup>36</sup> compliance with the [compliance requirements] as evaluated by the suitable criteria as at [throughout the period or at a date in time].

*[Responsibilities of the assurance practitioner]*

We will conduct our assurance engagement in accordance with Standard on Assurance Engagements ASAE 3100 *Compliance Engagements*. That standard requires that we comply with ethical requirements applicable to assurance engagements and plan and perform procedures to obtain limited assurance about whether anything has come to our attention that causes us to believe that [ABC's Statement is not fairly presented] in that the compliance with the [compliance requirements] as evaluated by the suitable criteria have not been fairly stated, in all material respects.

An assurance engagement involves performing procedures to obtain evidence about the compliance with the [compliance requirements] as measured by the suitable criteria. The procedures selected depend on the assurance practitioner's professional judgement, including identifying areas where the risk of material deficiencies in the compliance framework or misstatements in ABC's Statement are likely to arise. We will perform procedures primarily consisting of making enquiries of management and others within the entity, as appropriate, examination of documentation and evaluation of the evidence obtained about compliance with the [compliance requirements] as evaluated by the suitable criteria as provided in ABC's Statement. We will also perform additional procedures if we become aware of matters that cause us to believe there are deficiencies in the compliance framework or

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<sup>36</sup> Insert if the assurance report is expressed in terms of the responsible party's or evaluator's Statement rather than the underlying subject matter.

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

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misstatements in ABC's Statement. The procedures selected depend on what we consider necessary applying our professional judgement, including the assessment of risks of material deficiencies in the compliance framework or misstatements in ABC's Statement.

Because of the inherent limitations of an assurance engagement, together with the inherent limitations of any system of internal control there is an unavoidable risk that some deficiencies in the compliance framework or misstatements in ABC's Statement may not be detected, even though the engagement is properly planned and performed in accordance with Standards on Assurance Engagements. Therefore no opinion will be expressed as to the effectiveness of the system of internal control as a whole.

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 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. Therefore there is a higher risk than there would be in a reasonable assurance engagement, that any material deficiencies in the compliance framework and relevant controls that exist may not be revealed by the engagement, even though the engagement is properly performed in accordance with ASAE 3100. In expressing our conclusion, our report on ABC's compliance with the [compliance requirements] as evaluated by the suitable criteria will expressly disclaim any reasonable assurance conclusion on the compliance framework and relevant controls.

*[Responsibilities of management]*

Our assurance engagement will be conducted on the basis that [the responsible party/ management/ those charged with governance] acknowledge and understand that they have responsibility:

- (a) For the preparation of a written Statement [which will be attached to our report] that ABC has complied [throughout the period or at a date in time], in all material respects, with the [compliance requirements] as evaluated by the suitable criteria;
- (b) For the identification of risks that threaten the [compliance requirements] identified above not being met;
- (c) For the identification, design and implementation of controls which will mitigate those risks so that those risks will not prevent achievement of the compliance objectives; and
- (d) To provide us with:
  - (i) Access to all information of which those charged with governance and management are aware that is relevant to ABC's compliance with the [compliance requirements] as measured by the suitable criteria;
  - (ii) Additional information that we may request from those charged with governance and management for the purposes of this assurance engagement; and
  - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence.

As part of our engagement, we will request from [the responsible party/ management/ those charged with governance] written confirmation concerning representations made to us in connection with the engagement.

*[Assurance Report]*

The format of the report will be in accordance with ASAE 3100 with respect to limited assurance engagements [and will be in long-form, including assurance procedures, findings and recommendations]. An example of the proposed report is contained in the appendix to this letter.

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

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[Our report will be issued [frequency] and will cover [throughout the period or date in time reported on].]<sup>37</sup>

The limited assurance report will be attached to [ABC’s Statement] and our conclusion will be phrased in terms of whether anything has come to our attention that causes us to believe that [ABC’s Statement is not fairly presented] in that the compliance with the [compliance requirements] as evaluated by the suitable criteria have not been fairly stated, in all material respects [throughout the period or date in time].

*[Use of the Assurance Report]*<sup>38</sup>

[Our report is prepared for the use of ABC and [intended users] for [purpose] and may not be suitable for any other purpose.

The assurance report will be prepared for this purpose only and we disclaim any assumption of responsibility for any reliance on our report to any person other than ABC and [intended users], or for any purpose other than that for which it was prepared.]

We look forward to full cooperation from your staff during our assurance engagement.

*[Other relevant information]*

*[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]*

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our assurance engagement to report on compliance with the [compliance requirements] as evaluated by the suitable criteria, including our respective responsibilities.

Yours faithfully,

(signed)

.....

Name and Title

Date

Acknowledged on behalf of [engaging party]

(signed)

.....

Name and Title

Date

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<sup>37</sup> Insert this sentence for recurring engagements.  
<sup>38</sup> Insert this section if the report is to be for restricted use only.

**Example 2: Engagement Letter for an Attestation Engagement for Reasonable Assurance on compliance with the [compliance requirements] as evaluated by the suitable criteria**

To [the appropriate representative of management or those charged with governance of ABC or the engaging party]:

*[Objective and scope of the engagement]*

You have requested that we undertake a reasonable assurance engagement on ABC's Statement [which will accompany our report] regarding the compliance with the [compliance requirements] as evaluated by the suitable criteria, in all material respects, which you will provide and which will accompany our report, as at [date] for the purpose of reporting to [identify intended users: the Board of Directors/Regulator/Customers of ABC].

We are pleased to confirm our acceptance and our understanding of this reasonable assurance engagement by means of this letter. Our assurance engagement will be conducted with the objective of expressing an opinion on [ABC's Statement regarding]<sup>39</sup> compliance with the [compliance requirements] as evaluated by the suitable criteria as at [throughout the period or at a date in time], in all material respects.

*[Responsibilities of the assurance practitioner]*

We will conduct our assurance engagement in accordance with Standard on Assurance Engagements ASAE 3100 *Compliance Engagements*. That standard requires that we comply with ethical requirements applicable to assurance engagements and plan and perform procedures to obtain reasonable assurance about whether, [ABC's Statement is fairly presented] in that the compliance with the [compliance requirements] as evaluated by the suitable criteria have been fairly stated, in all material respects.

An assurance engagement involves performing procedures to obtain evidence about ABC's compliance with the [compliance requirements] as measured by the suitable criteria. We will perform procedures to obtain evidence about compliance activities and controls implemented to meet the [compliance requirements]. The procedures selected depend on the assurance practitioner's professional judgement, including the identification and assessment of risks of material deficiencies in the compliance framework or misstatements in ABC's Statement.

Because of the inherent limitations of an assurance engagement, together with the inherent limitations of any system of internal control there is an unavoidable risk that some deficiencies in the compliance framework or misstatements in ABC's Statement may not be detected, even though the engagement is properly planned and performed in accordance with Standards on Assurance Engagements. Therefore no opinion will be expressed as to the effectiveness of the system of internal control as a whole.

*[Responsibilities of management]*

Our assurance engagement will be conducted on the basis that [the responsible party/management/those charged with governance] acknowledge and understand that they have responsibility:

- (a) For the preparation of a written Statement [which will be attached to our report] that ABC has complied [throughout the period or at a date in time], in all material respects, with the [compliance requirements] as evaluated by the suitable criteria.
- (b) For the identification of risks that threaten the [compliance requirements] identified above being met;

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<sup>39</sup> Insert if the assurance report is expressed in terms of the responsible party's or evaluator's Statement rather than the underlying subject matter.

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

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- (c) For the identification, design and implementation of controls which will mitigate those risks so that those risks will not prevent achievement of the compliance objectives; and
- (d) To provide us with:
  - (i) Access to all information of which those charged with governance and management are aware that is relevant to ABC's compliance with the [compliance requirements] as measured by the suitable criteria;
  - (ii) Additional information that we may request from those charged with governance and management for the purposes of this assurance engagement; and
  - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence.

As part of our engagement, we will request from [the responsible party/ management/ those charged with governance] written confirmation concerning representations made to us in connection with the engagement.

*[Assurance Report]*

The format of the report will be in accordance with ASAE 3100 with respect to reasonable assurance engagements [and will be in long-form, including assurance procedures, findings and recommendations]. An example of the proposed report is contained in the appendix to this letter.

[Our report will be issued [frequency] and will cover [throughout the period or date in time reported on].]<sup>40</sup>

The reasonable assurance report will be attached to [ABC's Statement] and our opinion will be phrased in terms of [ABC's Statement regarding] compliance with the [compliance requirements] as evaluated by the suitable criteria, in all material respects for [throughout the period or date in time].

*[Use of the Assurance Report]<sup>41</sup>*

[Our report is prepared for the use of ABC and [intended users] for [purpose] and may not be suitable for any other purpose.

The assurance report will be prepared for this purpose only and we disclaim any assumption of responsibility for any reliance on our report to any person other than ABC and [intended users], or for any purpose other than that for which it was prepared.]

We look forward to full cooperation from your staff during our assurance engagement.

*[Other relevant information]*

*[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]*

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our assurance engagement to report on compliance with the [compliance requirements] as evaluated by the suitable criteria, including our respective responsibilities.

Yours faithfully,

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<sup>40</sup> Insert this sentence for recurring engagements.

<sup>41</sup> Insert this section if the report is to be for restricted use only.

(signed)

.....

Name and Title

Date

Acknowledged on behalf of [ABC/engaging party]

(signed)

.....

Name and Title

Date

**Example 3: Engagement Letter for a Direct Engagement for Reasonable Assurance on compliance with the [compliance requirements] as evaluated by the suitable criteria**

To [the appropriate addressee]:

*[Objective and scope of the engagement]*

You have requested that we undertake a reasonable assurance engagement to report on ABC's compliance with the [compliance requirements] as evaluated by the suitable criteria, in all material respects, as at [throughout the period or date in time] for the purpose of reporting to *[identify intended users: the Board of Directors/Regulator/Customers of ABC]*.

We are pleased to confirm our acceptance and our understanding of this reasonable assurance engagement by means of this letter. Our assurance engagement will be conducted with the objective of expressing an opinion on ABC's compliance with the [compliance requirements] as evaluated by the suitable criteria as at [throughout the period or date in time], in all material respects.

*[Responsibilities of the assurance practitioner]*

We will conduct our assurance engagement in accordance with Standard on Assurance Engagements ASAE 3100 *Compliance Engagements*. That standard requires that we comply with ethical requirements applicable to assurance engagements and plan and perform procedures to obtain reasonable assurance about whether, in all material respects, ABC has complied with the [compliance requirements] as evaluated by the suitable criteria. We will perform procedures to obtain evidence about compliance activities and controls implemented to meet the [compliance requirements]. The procedures selected depend on the assurance practitioner's professional judgement, including the identification and assessment of risks of material deficiencies in the compliance framework or material non-compliance with the [compliance requirements].

The procedures selected depend on the assurance practitioner's professional judgement, including identifying areas where the risk of material deficiencies in the compliance framework or misstatements in ABC's Statement are likely to arise.

Because of the inherent limitations of an assurance engagement, together with the inherent limitations of any system of internal control there is an unavoidable risk that some deficiencies in the compliance framework or non-compliance by ABC with the [compliance requirements] may not be detected, even though the engagement is properly planned and performed in accordance with Standards on Assurance Engagements. Therefore no opinion will be expressed as to the effectiveness of the system of internal control as a whole.

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

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*[Responsibilities of management]*

Our assurance engagement will be conducted on the basis that [the responsible party/management/those charged with governance] acknowledge and understand that they have responsibility:

- (a) For the identification of risks that threaten the [compliance requirements] identified above being met;
- (b) For the identification, design and implementation of controls which will mitigate those risks so that those risks will not prevent achievement of the compliance objectives; and
- (c) To provide us with:
  - (i) Access to all information of which those charged with governance and management are aware that is relevant to ABC's compliance with the [compliance requirements] as measured by the suitable criteria;
  - (ii) Additional information that we may request from those charged with governance and management for the purposes of this assurance engagement; and
  - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence.

As part of our engagement, we will request from [the responsible party/ management/ those charged with governance] written confirmation concerning representations made to us in connection with the engagement.

*[Assurance Report]*

The format of the report will be in accordance with ASAE 3100 with respect to reasonable assurance engagements [and will be in long-form, including assurance procedures, findings and recommendations]. An example of the proposed report is contained in the appendix to this letter.

*[Use of the Assurance Report]<sup>42</sup>*

[Our report is prepared for the use of ABC and [intended users] for [purpose], and may not be suitable for any other purpose.

The assurance report will be prepared for this purpose only and we disclaim any assumption of responsibility for any reliance on our report to any person other than ABC and [intended users], or for any purpose other than that for which it was prepared.]

We look forward to full cooperation from your staff during our assurance engagement.

*[Other relevant information]*

*[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]*

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our assurance engagement to report on controls within the [the type or name of] system, including our respective responsibilities.

Yours faithfully,

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<sup>42</sup> Insert this section if the report is to be for restricted use only.

(signed)

.....

Name and Title

Date

Acknowledged on behalf of [engaging party]

(signed).....

Name and Title

Date

Draft

**Appendix 5**

(Ref: Para. A54)

**EXAMPLE ASSURANCE REPORTS ON COMPLIANCE**

Example 1: Limited Assurance Report on compliance with the [compliance requirements] as evaluated by the suitable criteria

Example 2: Reasonable Assurance Report on compliance with the [compliance requirements] as evaluated by the suitable criteria

*The following examples of reports are for guidance only and are not intended to be exhaustive or applicable to all situations. They can be applied to both attestation and direct engagements. These examples are short-form reports but may be converted to long-form reports by inclusion of additional information as indicated.*

**Example 1: Limited Assurance Report on compliance with the [compliance requirements] as evaluated by the suitable criteria**

Independent Assurance Practitioner's Report

[Appropriate Addressee]

*Conclusion*

Our limited assurance conclusion has been formed on the basis of the matters outlined in this report.

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that, in all material respects [ABC's Statement is not fairly stated regarding]<sup>43</sup> compliance with the [compliance requirements] as evaluated by the suitable criteria for the [period or at a date in time].

[For a long-form report include a separate section, under an appropriate heading, or reference to an attachment for any additional information agreed in the terms of engagement to be provided to users, for example:

- Terms of the engagement.
- Criteria being used.
- Descriptions of the tests of compliance that were performed.
- Findings relating to the tests of compliance that were performed or particular aspects of the engagement.
- Details of the qualifications and experience of the assurance practitioner and others involved with the engagement.
- Disclosure of materiality levels.
- Recommendations for improvements to the compliance framework or processes around particular compliance activities.

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<sup>43</sup> Insert for attestation engagements if the conclusion is phrased in terms of ABC's Statement.

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

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### *Scope*

We have undertaken a limited assurance engagement on ABC's compliance with the [compliance requirements] as evaluated by the suitable criteria, in all material respects, for the [period or as at a date].

### *ABC's Responsibilities*

ABC is responsible for:

- (a) Compliance with the [compliance requirements] as evaluated by the suitable criteria for the [period or date].
- (b) Identification of risks that threaten the [compliance requirements] identified above being met; and
- (c) Identification, design and implementation of controls which will mitigate those risks so that those risks will not prevent achievement of the compliance objectives.

### *Our Independence and Quality Control*

We have complied with the relevant ethical requirements relating to assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*, [name of firm] maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### *Assurance Practitioner's Responsibilities*

Our responsibility is to express a limited assurance conclusion on [ABC's Statement regarding]<sup>44</sup> compliance with the [compliance requirements] as evaluated by the suitable criteria, in all material respects, for the [period or as at a date]. We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* issued by the Auditing and Assurance Standards Board. That standard requires that we comply with relevant ethical requirements and plan and perform our procedures to obtain limited assurance about whether anything has come to our attention that, in all material respects, ABC has not complied with the [compliance requirements] as evaluated by the suitable criteria, for the [period or as at a date].

In a limited assurance engagement, the assurance practitioner performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and examination of documentation, and evaluates the evidence obtained. The procedures selected depend on our judgement, including identifying areas where the risk of material deficiencies in the compliance framework or misstatements in [ABC's Statement]<sup>45</sup> or non-compliance with the [compliance requirements] are likely to arise.

*[Insert an informative summary of the nature, timing and extent of procedures performed that, in the assurance practitioner's judgement, provides additional information that may be relevant to the users' understanding of the basis for the assurance practitioner's conclusion. The following section has been provided as guidance, and the example procedures are not an*

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<sup>44</sup> Insert for attestation engagements if the conclusion is phrased in terms of the Statement.

<sup>45</sup> Insert for attestation engagements if the conclusion is phrased in terms of the Statement.

*exhaustive list of either the type, or extent, of the procedures which may be important for the users' understanding of the work performed.*<sup>46</sup>

Given the circumstances of the engagement, in performing the procedures listed above we:

- Through enquiries, obtained an understanding of ABC's compliance framework and internal control environment to achieve the compliance objectives and meet the compliance requirements.
- Through enquiries and inspection, obtained an understanding of relevant [compliance activities] that are undertaken to achieve the [compliance objectives] and meet the [compliance requirements].

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 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. Accordingly, we do not express a reasonable assurance opinion on the compliance framework and relevant controls.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

#### *Inherent Limitations*

Because of the inherent limitations of an assurance engagement, together with the any internal control structure it is possible that fraud, error, or non-compliance with laws and regulations may occur and not be detected.

A limited assurance engagement on the compliance with the [compliance requirements] as evaluated by the suitable criteria, in all material respects, at a specified date<sup>47</sup> does not provide assurance on whether compliance with the [compliance requirements] will continue in the future.

#### *[Restricted Use]*<sup>48</sup>

[This report has been prepared for use by [intended users] for the purpose of [explain purpose]. We disclaim any assumption of responsibility for any reliance on this report to any person other than [intended users], or for any other purpose other than that for which it was prepared.]

#### *[Assurance practitioner's signature]*<sup>49</sup>

*[Date of the assurance practitioner's assurance report]*

*[Assurance practitioner's address]*<sup>50</sup>

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<sup>46</sup> The procedures are to be summarised but not to the extent that they are ambiguous, nor described in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is important that the description of the procedures does not give the impression that an agreed-upon procedures engagement has been undertaken, and in most cases will not detail the entire work plan.

<sup>47</sup> Insert only for compliance engagements performed at a date in time.

<sup>48</sup> Insert section if the report is restricted use.

<sup>49</sup> The assurance practitioner's report needs to be signed in one or more of the following ways: name of the assurance practitioner's firm, name of the assurance practitioner's company or the personal name of the assurance practitioner as appropriate.

<sup>50</sup> The assurance practitioner's address includes the location in the jurisdiction where the assurance practitioner practices.

**Example 2: Reasonable Assurance Report on compliance with the [compliance requirements] as evaluated by the suitable criteria**

Independent Assurance Practitioner's Report

[*Appropriate Addressee*]

*Opinion*

Our opinion has been formed on the basis of the matters outlined in this report.

In our opinion, in all material respects [ABC's Statement is fairly stated regarding]<sup>51</sup> compliance with the [compliance requirements] as evaluated by the suitable criteria for the [period or at a date in time].

[*For a long-form report, include a separate section, under an appropriate heading, or reference to an attachment for any additional information agreed in the terms of engagement to be provided to users, for example:*

- Terms of the engagement.
- Criteria being used.
- Descriptions of the tests of compliance that were performed.
- Findings relating to the tests of compliance that were performed or particular aspects of the engagement.
- Details of the qualifications and experience of the assurance practitioner and others involved with the engagement.
- Disclosure of materiality levels.
- Recommendations for improvements to the compliance framework or processes around particular compliance activities.

*Scope*

We have undertaken a reasonable assurance engagement on ABC's compliance with the [compliance requirements] as evaluated by the suitable criteria, in all material respects, for the [period or as at a date].

*ABC's Responsibilities*

ABC is responsible for:

- (a) Compliance with the [compliance requirements] as evaluated by the suitable criteria for the [period or date].
- (b) Identification of risks that threaten the [compliance requirements] identified above not being met; and
- (c) Identification, design and implementation of controls which will mitigate those risks so that those risks will not prevent achievement of the compliance objectives.

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<sup>51</sup> Insert for attestation engagements if the opinion is phrased in terms of ABC's Statement.

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

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### *Our Independence and Quality Control*

We have complied with the relevant ethical requirements relating to assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*, [name of firm] maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### *Assurance Practitioner's Responsibilities*

Our responsibility is to express an opinion on [ABC's Statement regarding]<sup>52</sup> the compliance with the [compliance requirements] as evaluated by the suitable criteria, in all material respects, for the [period or as at a date]. We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* issued by the Auditing and Assurance Standards Board. That standard requires that we comply with relevant ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, ABC has complied with the [compliance requirements] as evaluated by the suitable criteria, for the [period or as at a date].

An assurance engagement to report on the compliance with the [compliance requirements] involves performing procedures to obtain evidence about the compliance activity and controls implemented to meet the [compliance requirements]. The procedures selected depend on our judgement, including the identification and assessment of risks of material deficiencies in the compliance framework, misstatements in ABC's Statement<sup>52</sup> or material non-compliance with the [compliance requirements].

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Inherent Limitations*

Because of the inherent limitations of an assurance engagement, together with the any internal control structure it is possible that fraud, error, or non-compliance with laws and regulations may occur and not be detected.

A reasonable assurance engagement on the compliance with the [compliance requirements] as evaluated by the suitable criteria, in all material respects, at a specified date<sup>53</sup> does not provide assurance on whether compliance with the [compliance requirements] will continue in the future.

### *[Restricted Use]<sup>54</sup>*

[This report has been prepared for use by [intended users] for the purpose of [explain purpose]. We disclaim any assumption of responsibility for any reliance on this report to any person other than [intended users], or for any other purpose other than that for which it was prepared.]

*[Assurance practitioner's signature]*

*[Date of the assurance practitioner's assurance report]*

*[Assurance practitioner's address]*

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<sup>52</sup> Insert for attestation engagements if the opinion is phrased in terms of the Statement.

<sup>53</sup> Insert only for compliance engagements performed at a date in time.

<sup>54</sup> Insert section if the report is restricted use.

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## Appendix 6

(Ref: Para. A57)

### EXAMPLE MODIFIED ASSURANCE REPORTS ON COMPLIANCE

- Example 1: Qualified reasonable assurance opinion – ABC’s Statement on the compliance with the [compliance requirements] is not fairly stated in all material respects
- Example 2: Adverse reasonable assurance opinion – the [compliance requirements] were non-compliant throughout the period
- Example 3: Disclaimer of reasonable assurance opinion – the assurance practitioner is unable to obtain sufficient appropriate evidence of compliance with the [compliance requirements]
- Example 4: Qualified limited assurance conclusion – the assurance practitioner is unable to obtain sufficient appropriate evidence of compliance with the [compliance requirements]

*The following examples of modified reasonable and limited assurance reports are for guidance only and are not intended to be exhaustive or applicable to all situations. They are based on the example reports in Appendix 5 and may be adapted as appropriate to the engagement circumstances.*

#### **Example 1: Qualified reasonable assurance opinion – ABC’s Statement on the compliance with the [compliance requirements] is not fairly stated in all material respects**

...

##### *Qualified Opinion*

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion were the compliance objectives and requirements identified in ABC’s Statement.

In our opinion, in all material respects, except for the matter(s) described in the Basis for Qualified Opinion paragraph, the Statement by ABC is fairly stated [as at [date]/ throughout the period from [date] to [date]].

...

##### *Basis for Qualified Opinion*

The accompanying Statement<sup>55</sup> that ABC is compliant, in all material respects with the [list specific compliance requirements], as evaluated by the suitable criteria. Based on our procedures, which included enquiries of staff personnel and observation of compliance activities, we have determined that compliance with the [list specific compliance requirements], in all material respects, was not fairly stated in ABC’s Statement due to [reason].

...

##### *Assurance Practitioner’s Responsibilities*

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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<sup>55</sup> Insert for attestation engagements if the opinion is phrased in terms of the Statement.

---

**Example 2: Adverse reasonable assurance opinion – the compliance requirements were non-compliant throughout the period**

...

*Adverse Opinion*

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion were the compliance objectives and requirements as described above in this report. In our opinion, ABC has not complied with the [compliance requirements], as evaluated by the suitable criteria, in all material respects, during the period from [date] to [date].

...

*Basis for Adverse Opinion*

The compliance activity undertaken by ABC has not complied with the [compliance requirements] as evaluated by the suitable criteria, in all material respects, during the period from [date] to [date] due to [reason]. This resulted in insufficient assurance that ABC had complied with the [compliance requirements], in all material respects, during the period from [date] to [date].

...

*Assurance Practitioner’s Responsibilities*

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

...

**Example 3: Disclaimer of reasonable assurance opinion – the assurance practitioner is unable to obtain sufficient appropriate evidence of compliance with the [compliance requirements]**

...

*Disclaimer of Opinion on Compliance with the Compliance Requirements*

Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate evidence to provide the basis for an opinion on the compliance with [list specific compliance requirements] during the period.

...

*Basis for Disclaimer of Opinion*

ABC’s computer systems were subject to a cyber-attack on [date] in which a substantial amount of ABC’s data was destroyed and no back up data retrievable, during the period from [date] to [date]. Due to this event we were unable to conduct testing of compliance activities or walk-throughs relevant to [list specific compliance requirements] during that period, which would be necessary to form an opinion on whether ABC was complaint with [list specific compliance requirements] during the period.

...

*Assurance Practitioner’s Responsibilities*

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we are not able to obtain sufficient appropriate evidence to provide a basis for a reasonable assurance opinion on ABC’s compliance with the [list specific compliance requirements].

...

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**Example 4: Qualified limited assurance conclusion – the assurance practitioner is unable to obtain sufficient appropriate evidence of compliance with the [compliance requirements]**

...

*Qualified Conclusion*

Our conclusion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our conclusion were the compliance objectives and requirements as described above in this report. Based on the procedures we have performed and the evidence we have obtained, except for the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that, ABC has not complied with the [compliance requirements] as evaluated by the suitable criteria, in all material respects, during the period from [date] to [date]].

...

*Basis for Qualified Conclusion*

Insufficient records were available from [date] to [date] due to [reason], and we were therefore unable to evaluate ABC’s compliance with [list specific compliance requirements] as evaluated by the suitable criteria, in all material respects, during the period from [date] to [date].

...

*Assurance Practitioner’s Responsibilities*

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our qualified conclusion.

