

22 August 2014

Ms Merran Kelsall
Chairman
Auditing and Assurance Standards Board
PO Box 204
Collins St West
Melbourne Victoria 8007
AUSTRALIA

Dear Ms Kelsall

AUASB Exposure Draft ED 01/14
Proposed Standard on Assurance Engagements ASAE 34XX
Assurance Engagements on Controls (Replacement of AUS 810)

Please find attached the Australasian Council of Auditors-General (ACAG) response to AUASB Exposure Draft ED 01/14.

Overall, ACAG is supportive of the exposure draft.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely



Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

Specific Matters for Comment

1. Does this standard address the scope of all common engagements where assurance practitioners are requested, or required to provide assurance on controls?

The proposed standard provides for the types of assurance engagements on controls undertaken by some ACAG members, and appears to provide for all common engagements.

ACAG's assurance engagements on controls are often (if not always) performed in conjunction with audits of financial statements. Although the proposed standard does not provide any guidance specific to the joint conduct of such engagements, the requirements seem to be adaptable to these circumstances. ACAG notes the AUASB's project to provide a guidance statement on combined reporting frameworks and would welcome further guidance specific to such engagements.

2. Is it appropriate that all engagements are required to conclude on the suitability of the design to meet the identified control objectives and, in addition, may include:

- (a) fair presentation of the description of the system (attestation engagements only);**
- (b) implementation of controls as designed; and/or**
- (c) operating effectiveness of controls as designed?**

It is appropriate that the suitability of design forms part of all engagements captured by the proposed standard. The additional elements also seem appropriate as stated.

Further clarification would be helpful on how to provide assurance over the operating effectiveness of controls where a control has not needed to operate in the period (that is, whether a limitation of scope is required, and how this may interact with the requirements in paragraph 89).

3. Is it appropriate that the scope of a controls engagement may cover, either:

- (a) a specified date for engagements including the description, design and/or implementation of controls; or**
- (b) throughout the specified period for engagements which include operating effectiveness of controls?**

This is appropriate.

4. Are the considerations for conducting a direct engagement adequately differentiated from an attestation engagement?

Yes.

- 5. Is the objective of an assurance practitioner in ASAE 3000 to obtain assurance about “whether the subject matter information is free from material misstatement” appropriately adapted for an engagement on controls to obtain assurance about whether there are material:**
- (a) misstatements in the description of the system;**
 - (b) deficiencies in the suitability of the design to achieve the control objectives;**
 - (c) deficiencies in the implementation of controls as designed; or**
 - (d) deviations in the operating effectiveness of controls as designed?**

The objective in ASAE 3000 has been appropriately adapted to controls engagements through the points above.

- 6. Are the procedures required for limited and reasonable assurance appropriate and adequately distinguished?**

Yes. However ACAG notes the reference to ‘assessed risk’ in paragraph 55L indicates an elevated requirement from what is necessary under ASAE 3000 for limited assurance engagements. The proposed standard should be explicit that this is an elevated requirement from ASAE 3000.

- 7. Is a limited assurance engagement on controls a meaningful engagement?**

ACAG’s recent experience is with reasonable assurance engagements on controls. However ACAG considers that limited assurance engagements are meaningful as long as parties are aware of the difference in the level of assurance provided.

- 8. Are the appendices included appropriate and are sufficient example assurance reports included to address the most common engagements on controls?**

Generally, the appendices are appropriate and sufficient example reports have been included, subject to the following comments.

In Appendix 2, point 3 ‘Entity’s compliance with requirements specifying controls’ refers to ASAE 3100 as being the applicable topic-specific standard. For some ACAG members, where requirements for controls are specified in sub-ordinate legislation, the appropriate topic-specific standard would be ASAE 34XX.

In Appendix 5, ACAG believes there would be benefit in the example representation letter for direct engagements being for an engagement on design and implementation of controls, as operating effectiveness has been covered in the first (attestation) example.

Appendix 6 Example 4 reflects a reasonable assurance report on the design and operating effectiveness of controls. In example 4, the scope paragraph provides the option to either list overall objectives or to list/refer to control objectives. ACAG supports this interpretation that listing overall objectives (or, in some cases, a single overall objective) may be appropriate. Where the overall objective of the assurance engagement is broad, any requirement to list control objectives would result in vast amounts of information needing to be conveyed.

Similarly, any requirement to be specific in naming systems would be impractical in some engagements with broad objectives.

The example modifications to assurance reports in Appendix 7 would benefit from a range of modifications being included (that is, adverse opinions and disclaimer of opinions in addition to qualified opinions).

9. What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the requirements of this proposed Standard? If there are significant costs, do these outweigh the benefits to the users of assurance services?

Overall, ACAG does not anticipate compliance with the proposed standard to result in significant costs for assurance practitioners and the business community, subject to the following comments.

Paragraph 51R outlines a number of steps ((a) – (h)) in assessing implementation. This paragraph is drafted in a mandatory sense, that is, including steps (a) – (h). It may not always be necessary to assess all of these elements to gain assurance over implementation. Paragraph 51R may be better phrased as ‘... these may include...’ rather than ‘including’.

Further, 51R requires assurance procedures to include enquiry. Although in many cases, assessment of implementation will require enquiry, it would be preferable to not make this mandatory. Auditing standards require that evidence for design and implementation of controls include enquiry (ASA 315.13), and that enquiry alone is not sufficient (ASA 315.A74). It would be less costly for the ASAE 34XX’s requirements to mimic those of the auditing standards and be applicable to design and implementation collectively, rather than specifically for implementation.

In light of the comments above, 51R could be amended as follows:

‘The assurance procedures to test implementation of controls may include enquiry of management or others within the entity, observation, and inspection of records and other documentation, regarding the manner in which the controls were implemented. Enquiry alone, however, is not sufficient for such purposes. These procedures may include...’

Where assurance engagements on controls are performed in conjunction with audits of financial statements, there is overlap in the work performed. It is preferable to minimise differences between auditing standards requirements and those requirements in the exposure draft where appropriate to reduce costs to audit firms. For example, differences in enquiries of management regarding the risk of fraud in paragraph 40(a)(iv) differ slightly from those enquiries required by ASA 240 paragraph 17(d).

10. Are there any other significant public interest matters that constituents wish to raise?

ACAG does not raise any other matters of significant public interest, however ACAG provides the comments below for consideration.

The proposed standard may benefit from a definition of ‘pervasive’ that is specific to controls engagements. Examples of what may be considered pervasive for a controls engagement would also be helpful.

Paragraph 33 requires the assurance practitioner to set overall materiality and performance materiality. Defining a set level of materiality may not be possible given the nature of some controls engagements. We consider it more appropriate to ‘consider’ materiality, as per the recently reissued ASAE 3000.

Paragraph 40(g) requires assessment of the adequacy of controls over matters for which decisions or actions are non-routine. Reference is made to the exercise of management override. It may not be appropriate to expect there to be controls related to management override. The requirement regarding the exercise of management override may fit better in a separate sub-paragraph.

The proposed standard refers to both ‘deficiencies in implementation’ and ‘deviations in implementation’ (examples of ‘deviation in implementation’ are paragraphs 76(d)(iii) and 83). Consistent reference to ‘deficiencies in implementation’ is preferable.

The proposed standard uses the terms ‘mitigating’ or ‘compensating’ controls throughout. It may be appropriate to include definitions for these terms within paragraph 15, to facilitate a consistent understanding of the nature of these controls by assurance practitioners and responsible parties.

To improve clarity of the proposed standard, rather than just referring to ASAE 3000, the standard should include the related paragraph within ASAE 3000 where appropriate. There are a number of instances throughout the proposed standard where this occurs.

Paragraph 8 – Reference made to ‘assurance engagement’ in the first sentence should be changed to ‘assurance engagements’.

Paragraph 15(aa) – A number of references have been made to ‘practitioner’ as opposed to ‘assurance practitioner’. Consistent reference to ‘assurance practitioner’ is preferable.

Paragraph 20 states that ‘...Appendix 1 identifies criteria for each type of engagement’. However, Appendix 1 is not presented to differentiate between direct and attestation engagements. Paragraph 20 could instead state ‘...Appendix 1 identifies criteria for the different types of subject matter’.

Consideration could be given to consolidating the requirements in paragraph 22 to remove duplication between 22(a) and 22(b); perhaps through use of a tabular format.

There are several instances where reference has been made to ‘assertions’ by the responsible party. This should be changed to ‘statements’ by the responsible party for consistency with other ASAEs.

Paragraph A22 – This paragraph should be reworded to be clearer.

Paragraph A25 is a duplication of paragraph A19.

Paragraph A75(b) – Reference made to ‘less nature’ should be changed to ‘lesser in nature’.

Paragraph A84 – The term ‘complementary user-entity’ should be defined.