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Basis for Conclusions ***ASAE 3100 Compliance Engagements***

Prepared by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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Basis for Conclusions ASAE 3100 *Compliance Engagements* has been developed by the Auditing and Assurance Standards Board (AUASB) to provide a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASAE 3100.

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BASIS FOR CONCLUSIONS

ASAE 3100 Compliance Engagements

This Basis for Conclusions is issued by the Auditing and Assurance Standards Board (AUASB). It provides a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis of Conclusions relates to, but does not form part of, ASAE 3100 *Compliance Engagements*, and is not a substitute for reading the Standard.

Background

1. The AUASB has issued a revised Standard on Assurance Engagements, ASAE 3100 *Compliance Engagements*, to replace ASAE 3100, issued by the AUASB in 2008. ASAE 3100 is operative for assurance engagements commencing on or after 1 January 2018, with early adoption permitted. ASAE 3100 sets out mandatory requirements and related application and other explanatory material (“guidance”) for assurance practitioners to apply, in conjunction with the requirements in ASAE 3000, when accepting, planning, performing and reporting on compliance engagements.
2. This project was undertaken after board discussion, conducting a survey in 2012 of practitioners to ascertain current utilisation of the existing standard and whether stakeholders considered that a revision to the standard was appropriate, together with discussion at the annual AUASB Consultative meeting in 2011 and as a result of feedback obtained, the AUASB resolved to revise ASAE 3100 during the board meeting held in February 2015.
3. The AUASB’s project on compliance engagements to develop a revised standard to replace the standard issued in 2008, has been conducted as a joint project with the NZAuASB and with the advice of a Project Advisory Group comprising assurance practitioners from both Australia and New Zealand. An exposure draft ED 04/16 of the proposed standard was issued by the AUASB on 22 August 2016 in Australia for a 60 day exposure period. The comment period closed on 19 October 2016 and 7 submissions were received. The AUASB considered all submissions received, and in response, made a number of amendments to proposed ASAE 3100.
4. Submissions on the exposure draft were received from:
 - Australasian Council of Auditors-General (ACAG)
 - KPMG
 - Chartered Accountants ANZ (CA ANZ)
 - CPA Australia (CPA)
 - Deloitte
 - Ernst & Young (EY)
 - PricewaterhouseCoopers (PwC)
5. The Office of Best Practice Regulation (OBPR) provided clearance for the proposed standard in August 2016, as the OBPR considered that the regulatory impacts of the proposed revised standard are likely to be minor and consequently no regulatory impact statement was required.
6. ASAE 3100 was approved by the AUASB on 29 November 2016, with a unanimous vote in favour.

Scope

7. ASAE 3100 applies to reasonable and limited assurance engagements to provide an assurance report on an entity's compliance with the compliance requirements as evaluated against the suitable criteria, conducted as an attestation or a direct engagement.

Major Issues raised by Respondents on Exposure

The following summarises the major issues raised by respondents to Exposure Draft ED 04/16 *Compliance Engagements* (ED 04/16) issued on 22 August 2016 and how the AUASB has addressed those issues.

Issue 1: – Use of the Term Compliance Framework

8. One respondent considered that the term “compliance framework” is not appropriate for the proposed definition provided and would be misunderstood.
9. In response, the AUASB considered that the term ‘compliance framework’ is used and applied in extant ASAE 3100 and the glossary, and is adequately defined for the purposes of this ASAE to be clear as to its meaning and application in revised ASAE 3100. The use of this definition within the context of this ASAE is much broader than just “controls” or “systems of controls”. It encapsulates a broad understanding by the assurance practitioner of the compliance culture/environment of the entity which includes governance structures, programs, processes, systems and controls.

Issue 2 - Compliance Framework as a Subject Matter

9. One respondent considered that the manner in which the term compliance framework, meaning controls as discussed above at issue 1, is used in the standard suggests that controls are included in the subject matter of compliance engagements. However, the subject matter in these engagements is the compliance activities to meet the compliance requirements, rather than the controls over those compliance activities. The AUASB considers that the subject matter of a compliance engagement relates to compliance with requirements only and not controls over compliance.
10. In response, the AUASB considered that the concept of a compliance framework is applied primarily in a compliance engagement in the planning phase and when obtaining an understanding of the compliance activity and other engagement circumstances. By understanding the compliance framework and its key elements: governance structures, programs, processes, systems, controls and procedures, the assurance practitioner has a more in depth understanding of areas where the risks of non-compliance are likely to arise and respond to these appropriately. The compliance framework refers to the broader governance/control environment an entity has established, including compliance activities and is therefore important to the assurance practitioner's understanding of the entity and the environment in which compliance activities are undertaken. This understanding is required for the assurance practitioner to perform their risk assessment as they would under any assurance engagement.

Issue 3 - Suitable Criteria

11. One respondent considered that the phrase “evaluated by the suitable criteria” which is used throughout ED 04/16, after compliance requirements, is not useful nor communicates any useful meaning, as paragraph 9 of revised ASAE 3100 states “the criteria may be the compliance requirements, or a subset thereof”. Consequently, the respondent considers that this concept simply serves to complicate the proposed standard. Compliance requirements are the criteria for a compliance engagement and whilst they may be broken down into greater detail in order to test the compliance activities, the respondent does not believe that repeated use of this phrase aids clarity.

In response, the AUASB noted that the concept of compliance requirements and suitable criteria were discussed at length by the Board throughout the development of ED 04/16. The draft ED 04/16 presented to the Board in December 2015 was drafted excluding the phrase “evaluated by the suitable criteria” and the Board made a decision to reinstate this terminology as both concepts of “compliance requirements” and “criteria” are relevant in a compliance engagement. This position was also supported by the PAG and is consistent with extant ASAE 3100. A final decision was made by the Board at the February 2016 meeting to retain both terms in the ED 04/16 to provide a clearer understanding as to the application and objective of a compliance engagement.

All other issues raised by respondents were reflected in the revised ASAE 3100.

Conclusion

The AUASB considered that the amendments made to the standard since exposure, in response to ED submissions and as a result of the AUASB’s deliberations, have not changed the fundamental approach and principles on which the standard is based and, consequently, the AUASB concluded that it was not necessary to re-expose the standard, as the intention of the requirements remained unchanged. The AUASB voted unanimously on 29 November 2016 to approve and issue ASAE 3100.

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