

Ms Merran Kelsall
Chairman
Australian Auditing and Assurance Standards Board
PO Box 204
Collins Street
Melbourne
VIC 8009

26 August 2014

Dear Ms Kelsall

Re: Exposure Draft ED 01/14 Assurance Engagements on Controls

Deloitte Touche Tohmatsu (Deloitte) is pleased to respond to the Australian Auditing and Assurance Standards Board (AUASB) on Exposure Draft ED 01/14 Proposed Standard on Assurance Engagements ASAE 34XX *Assurance Engagements on Controls (Replacement of AUS 810) (ED 01/14)*.

We support the issuance of an updated standard to replace the current AUS 810 in order to align and be consistent with other assurance engagement standards issued by the AUASB as well as provide clear and useful guidance to users.

Please refer to Appendix 1 for our responses to the specific questions posed by the AUASB within ED 01/14.

We have several fundamental and pervasive comments with respect to ED 01/14 as follows:

1. Limited assurance versus reasonable assurance engagements

The standard should provide clear guidance in what circumstances it would be appropriate to perform a limited assurance engagement on controls especially in light of the different types of engagements that are available (eg. an engagement to conclude only on the suitability of the design of controls). We recognise that it is not uncommon for regulators to request limited assurance engagements on controls but note that they ordinarily have powers to obtain additional information from the entity or to seek clarification on the assurance conclusion and findings. We question whether general purpose limited assurance engagements on controls will be understood by users and therefore would be meaningful and therefore serve the public interest. In our opinion, the standard should be amended to include a clear “warning” to assurance practitioners to confirm the appropriateness of a limited assurance engagement before accepting the engagement.

In addition, we believe that the standard needs to include additional guidance so that the differences between limited assurance and reasonable assurance engagements are clear to both assurance practitioners and users. ED 01/04 attempts to describe the differences in the requirements between a limited and a reasonable assurance engagement, however given the different types of engagements, this tends to be generic and not very descriptive and as a result, does not in our view achieve the purpose intended.

There is a risk that users do not fully understand the differences between limited assurance and reasonable assurance and thus misunderstand the extent of work performed and the level of assurance achieved.

There is also a risk that assurance practitioners do not understand the different procedures required to be performed in a limited assurance engagement versus a reasonable assurance engagement and this could lead to inappropriate or insufficient work being performed.

2. Applicable criteria

The inclusion of the applicable criteria within the report is important for the users to understand the scope and extent of work performed and ultimately the conclusion provided.

Criteria for a controls engagement is defined in paragraph 15(g) as the control objectives for evaluating the design of the controls. In addition, paragraph 20 extends the definition of criteria to include the actual controls necessary to achieve the control objectives when evaluating implementation or operating effectiveness.

We believe the definition of 'criteria' as per paragraph 15(g) should be updated to incorporate the different types of controls engagements and to be consistent with paragraph 20. As a result, the reporting requirements (as per paragraph 85) and the example reports in the appendices should be updated to also include the details of the controls when the engagement includes testing of the implementation or operating effectiveness of controls. If the controls are not specified in these circumstances, we believe this could negatively impact the understanding of the users and dilute the usefulness of the report.

3. Overall control objectives

In order for the assurance report to be meaningful to users it is important that it specifies the criteria against which the underlying subject matter has been measured (as per point 2 above). Assurance practitioners need to be careful when using "overall control objectives" as applicable criteria as this may result in a report which is unclear, subjective or otherwise difficult to understand and may lead to confusion as to what has or has not been included in the scope of the work performed.

We recommend that additional guidance be included to reinforce key points regarding the use and assessment of "overall control objectives" as applicable criteria within a controls engagement.

4. Materiality

We acknowledge that articulating the concept of materiality for a controls engagement is challenging based on the nature of the engagement and as a result we understand why paragraph 33 is worded as is. However, based on the number of separate guidance paragraphs (10 in total), the extent of information included within them, the mix of different types of controls engagements and reference to different levels of materiality (ie. overall objectives, the control objectives or the individual controls), we are questioning how useful this guidance would actually be to an assurance practitioner.

For example, we believe it is unclear what the purpose and relevance is of paragraph A45, in light of the information within paragraph A43, as it states: "Qualitative materiality can be assessed where the impact on users of a control deficiency or deviation depends on the nature of the control objective or system within which the control operates". Another example, is paragraph A46 as it brings in the concept of assessing materiality at different levels (ie. overall objectives, the control objectives or the individual controls), however it then goes on to refer to overall materiality which will be used to express the conclusion. The follow on guidance paragraphs provide examples of qualitative materiality relating to control objectives and individual controls, however we don't believe it is clear how these different materiality levels would be relevant and applied within a controls engagement.

We recommend that these guidance paragraphs are reconsidered to make them clearer, more succinct and more useful for the assurance practitioner.

5. Short form versus long form reports

ED 01/14 currently includes definitions as to what constitutes a short form and long form report, however it does not provide clear guidance for assurance practitioners on circumstances when a long form report would be appropriate (rather than a short form report) other than stating to meet information needs of users as agreed in the terms of the engagement. It is also unclear why a long form report would need to describe certain matters in detail as noted in paragraph 15(aa), such as the terms of the engagement (this may suggest that the users of the report were not privy to the terms of engagement) and findings relating to particular aspects of the engagement (which is vague and does not assist in understanding the matters to be included).

We believe that ED 01/14 does not clearly articulate the differences between a short form and long form report. For example, the definition of a long form report included in paragraph 15(aa)(ii) makes reference to the inclusion of detailed matters such as 'the criteria being used', however this is one of the requirements within a short form report as outlined in paragraph 85(e).

Also, given that the standard does not specifically state whether each of the example reports is a short form or long form report and what information would typically be included in one or the other, the example reports don't provide any further clarity in this area.

6. The concept of the design of controls makes reference also to operating effectiveness

Throughout ED 01/14 (for example, within the definition of 'deficiency in design of controls' in paragraph 15(i) and in the conclusion paragraph of the example reports included in Appendix 4), the design of controls makes reference to "if operating effectively". We don't believe this additional wording is necessary and in fact for a controls engagement where operating effectiveness is not part of the scope, we believe this would be quite confusing for users. We recommend that the wording "if operating effectively" be deleted in these circumstances.

7. Reporting on a control that has a zero population during the period

Currently the standard is silent in relation to how the assurance practitioner would be expected to report on instances relating to the implementation or the operating effectiveness of controls where one or more of the controls had a zero population during the relevant period. We believe the standard should include some guidance as to how this should be treated by the assurance practitioner – for example, whether this situation would trigger a limitation of scope or not.

In addition to the pervasive comments included above, we have included specific comments relating to ED 01/14 in Appendix 2.

We would also like to take this opportunity to draw the AUASB's attention to the broader request for further guidance relating to situations where assurance practitioners are requested to include multiple opinions/conclusions, including on different subject matters, within the same report. We know that it is not uncommon for responsible parties or regulators/other bodies to request an assurance engagement that includes multiple opinions and/or conclusions in accordance with different assurance standards. We believe that the AUASB should issue further guidance in relation to this, specifically as to how the standards inter-relate and how the separate components of the engagement should be reported.

We kindly request that the AUASB consider the comments we have raised above, as well as those included within Appendix 1 and 2.

If you have any queries in relation to this response please do not hesitate to contact me on 02 9322 7288.

Yours sincerely



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Partner
Deloitte Touche Tohmatsu

Appendix 1 – Response to specific questions posed within ED 01/14

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

Yes, the common assurance engagements on controls are addressed.

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?*

We believe there could be circumstances where the responsible party or a regulator/oversight body may prescribe or request an assurance engagement that only requires a conclusion on the operating effectiveness of controls without the need to assess the design of the controls which is not specifically referred to in the standard. Although we acknowledge that these types of engagements are not expected to be common, in our opinion, it is unlikely that they would be meaningful to the users and thus the assurance practitioner should seriously consider the acceptance of such an engagement. We recommend that ED 01/14 include further information relating to what constitutes a meaningful engagement and what the assurance practitioner would need to assess during the acceptance process.

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?*

Yes, we believe this is appropriate, although it is noted that the scope of a controls engagement may commonly include both.

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

ED 01/14 does make reference to considerations for a direct controls engagement versus an attestation controls engagement, however we believe the fundamental differences between these two types of engagements are not well understood by users and ED 01/14 does not clearly differentiate and define these engagements either. One example of this is included within the definition of an attestation engagement on controls (paragraph 15(a)), where it refers to “the outcome of the evaluation provided in a statement to the assurance practitioner” however it then goes on to state that it is “either available to the intended users of the assurance report or may be presented by the assurance practitioner in the assurance report”.

Refer also to our specific comments in Appendix 2.

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 specific adaption as included above seems reasonable. Refer to the body of this response letter for our pervasive comment relating to the current guidance included with respect to materiality for controls engagements.

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

In our opinion, this is a key area that needs to be improved as noted in our covering letter and in our response to question 7. In addition we have cited specific examples in our comments in Appendix 2.

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

We have raised this as a pervasive comment in this response. In order for a limited assurance engagement on controls to be a meaningful engagement, ED 01/014 would need to be enhanced to make it clear and provide further guidance with respect to the circumstances when a limited assurance engagement would be appropriate, the different scope and procedures associated with a limited (versus reasonable) assurance engagement and the need for users of the report to fully understand what a limited assurance engagement means. For example, in a limited assurance design and implementation engagement does the practitioner have to consider all of the controls that have been designed and implemented? Is it appropriate to test implementation without doing a walk through?

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

It is noted that there is no example limited assurance engagement letter included within the appendices. In addition, there is only one example limited assurance report. This may be interpreted that limited assurance engagements on controls are not common and/or are not recommended. We are unclear as to how the informative summary as to the nature and extent of procedures in the section on the assurance practitioners' responsibilities would differ from the description of the tests of controls set out underneath the conclusion. We note that one of the key clarifications to ISAE 3000 was for clarity in a limited assurance report of the work performed so that the users can understand the assurance obtained.

We believe at a minimum that an example limited assurance engagement letter is included in the appendices, if it is concluded that limited assurance engagement on controls is a meaningful engagement.

The title of the example reports included within Appendix 6 don't clearly distinguish whether it is a short form or long form report or whether it relates to an attestation engagement or direct engagement.

Refer also to our specific comments in Appendix 2.

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?*

Nothing of significance to note.

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

Our pervasive comments are included earlier in this response.

Appendix 2 – Other specific comments relating to ED 01/14

ED 01/14 Paragraph	Comment
Throughout	Reference is made within the standard to an ‘opinion’ when performing a reasonable assurance engagement. We believe this is inconsistent with wording used in ASAE 3000 where it refers to a reasonable assurance conclusion or a limited assurance conclusion.
15(i)	Delete the words “if operating effectively” from the end of the definition (refer to our pervasive point included earlier in this response)
15(bb)	It seems that the definition of ‘material control’ is what would be expected for a ‘control’ based on the definition of a control included at paragraph 15(f)
15(cc)(ii)	This refers to the “...deviation in the implementation of controls...” which is inconsistent with paragraph 15(j) that only refers to the deficiency in implementation of controls.
15(ii)	This is unclear, particularly “... are the controls at an entity”
15(mm)	It is unclear what the purpose is to include a statement in the definition of ‘specific control objective’ as follows: “Unless stated otherwise, reference to control objectives is a reference to specific control objectives.”
30	We believe this paragraph is very long and may be difficult to understand by users. We recommend initially reconsidering the purpose of this paragraph and then subdividing the paragraph into shorter and more succinct paragraphs may assist in making it easier to understand and digest.
34	This paragraph doesn’t draw out any specific reference to attestation engagements, even though direct engagements are referred to in paragraph 34(a)
34(c)	This paragraph as drafted is difficult to comprehend: “...identify the controls designed to mitigate those risks so they will not prevent achievement of the control objectives;”
35	Based on the current wording of this paragraph it seems equally applicable to a limited assurance as well as a reasonable assurance engagement, however this seems inconsistent with the information included within paragraphs 46L and 46R. We believe that the requirement in paragraph 35 should only be applicable for reasonable assurance engagements.
46R(c)	Consider rewording as follows: “obtain an understanding of the manner in which the control environment operates and consider...” In addition, it refers to considering other components of controls not within the scope of the engagement which may impact the effectiveness of the specific controls within scope – wouldn’t this indicate that the controls referred to as ‘out of scope’ would be required to be ‘in scope’? Finally, we recommend providing additional guidance on what work is expected of the assurance practitioner and provide examples (for example, “tone at the top”)
53	Consider providing guidance on the treatment of controls with zero population during the assurance period (for implementation and/or operating effectiveness reports). For example the practitioner may treat it as a scope limitation to be disclosed in the report.
59	(b) Shouldn’t this be two separate points? (e) This is not alphabetically in order with the points above.
85(h)	Numbering on the first sub-point is missing - should include (i)
85(h)(iii)	Grammatical error noted as follows: “...either the entity’s the controls are suitably designed...”
85(h)	Based on wording included in this paragraph it seems that the report is required to state that the assurance practitioner complies with ethical requirements, including independence and they are a member of a firm which applies ASQC 1. This appears to then be translated into the example reports within Appendix 6 to be the two detailed paragraphs within the ‘Our Independence and Quality Control’ section. We believe the requirements included within paragraph 85(h) should be reviewed and updated to reflect the specific statements included within the example reports as well as reviewed for consistency with ASAE 3000.
85(k)	We recommend rewording this paragraph as it is currently very long and may be difficult to understand by users. The difficulty in understanding stems from the length of the paragraph as well as the various numbering and referencing points included within the one paragraph. In addition, reference to ‘suitable criteria’ at the end of the first paragraph seems unnecessary and inappropriate.
85(k)(i)a. 85(k)(ii)a. 85(k)(iii)a.	Delete the words “if the controls operated effectively” from the end of the sentence as this is currently confusing (refer to our pervasive point included earlier in this response)

85(k)(iii)a.	Typo to be fixed as follows: "...achieve the identified controls objectives..."
A25	We don't think this paragraph is required as it is repeating paragraph A19
Appendix 1	<p>With respect to the table included in Appendix 1:</p> <ul style="list-style-type: none"> • Fair presentation of description of the system (2nd row, 1st column): <ul style="list-style-type: none"> ○ Unsure how the criteria for evaluating this subject matter can be "controls as designed and, if within the scope of the engagement, implemented"? (2nd column) ○ Unsure how the basis of materiality can include "significance of control in mitigating risks which threaten achievement of each control objective..."? (3rd column) • Date or Period covered (4th column): <ul style="list-style-type: none"> ○ It is confusing to include reference to "...if scope includes operating effectiveness, throughout the period" for the first three subject matters
Appendix 2	<p>With respect to the table included in Appendix 2:</p> <ul style="list-style-type: none"> • For subject matter 2, we recommend the word 'ensure' is replaced • Is the difference clear between subject matter 2 and 3? This is important as they fall under different standards. • Is it clear why subject matter 5 would not fall under Assurance Engagements on Controls?
Appendix 4	<p>Consider rewording of paragraph 1 as follows: "You have requested that we provide <i>perform</i> a reasonable assurance <i>engagement to</i> report on the description of..."</p>
Appendix 6	<p>Example Report 1: Our overriding comment would be:</p> <ul style="list-style-type: none"> • We suggest that only including one limited assurance example report that only includes the description and design of the controls and not implementation, is not appropriate or useful for assurance practitioners and users <p>Our specific comments on the wording currently included:</p> <ul style="list-style-type: none"> • We recommend that it is made clear and specifically stated in the first paragraph that implementation is not included with the scope of the engagement • ABC's Responsibilities may confuse or mislead some users as it includes point (e) that makes reference to 'implementing controls' and 'if operating effectively', even though the scope of the assurance practitioner's engagement does not extend to these • We believe that the 3rd paragraph included under the 'Limitations of Controls' section is essentially repeating the information included within the 2nd last paragraph under the 'Assurance Practitioner's Responsibilities' section • For point (b) in the 'Conclusion' section, we recommend that the wording at the end of the sentence "if the controls operated effectively" be deleted
Appendix 6	<p>Example Report 4 is entitled: "...Attestation Engagement where Evaluator's Statement is not available to Users" and includes reference to ABC's responsibility point (e) for attestation engagements.</p> <p>We believe that consideration be given as to whether this would satisfy the definition of an 'Attestation engagement on controls' as paragraph 15(a) states that: "The outcome of that evaluation is provided in a statement to the assurance practitioner, which either is available to the intended users of the assurance report or may be presented by the assurance practitioner in the assurance report."</p>
Appendix 6	Footnote 43 includes a typo: the 'is' should be 'if'
Appendix 6	<p><i>Description of Tests of Controls</i> is included as optional within the example reports. Footnote 43 says "Insert section on description of tests of controls if required in the terms of engagement". It is unclear what the term 'tests of controls' is actually referring to (especially within a limited assurance engagement), when it would be appropriate to include this section within the assurance report and in fact we believe this would always be needed in the case of a limited assurance engagement.</p> <p>Refer also to previous comments raised.</p>