

3 February 2014

Ms M Kelsall  
The Chairman  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
MELBOURNE VIC 8007

Dear Ms Kelsall

**Exposure Draft 05/13 - Proposed Standard on Assurance Engagements ASAE 3000 - Assurance Engagements Other than Audits or Reviews of Historical Financial Information**

Please find attached the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above. The views expressed in this submission represent those of all Australian members of ACAG.

ACAG only supports the proposals in ED 05/13 where they are consistent with the corresponding ISAE 3000.

ACAG further notes the standard will not apply to direct engagements and encourages the AUASB to address this matter. Some of the issues ACAG considers should be addressed are:

- A consequence of ASAE 3000 applying specifically to attestation engagements is that Australian Standards ASAE 3100 *Compliance Engagements* and ASAE 3500 *Performance Engagements* can no longer fully comply with ASAE 3000 for direct engagements.
- It is important for non-financial statement assurance reports issued by the Australian members of ACAG that ASAE 3100 and ASAE 3500 continue to have mandatory requirements for direct engagements, notwithstanding the proposal to specifically restrict ASAE 3000 to attestation engagements, because most ACAG non-financial audits are direct engagements.

ACAG is of the view that further consideration needs to be given to the standards for direct engagements (rather than the proposed encouragement to adapt proposed ASAE 3000 as appropriate) and that a fresh consultation with constituents on how this might be done should be undertaken, rather than proceeding directly to an Exposure Draft.

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

Yours sincerely

A handwritten signature in black ink, appearing to read "S O'Neill", with a small horizontal line at the end.

Simon O'Neill  
**Chairman**  
**ACAG Financial Reporting and Auditing Committee**

**Exposure Draft 05/13 - Proposed Standard on Assurance Engagements ASAE 3000 - Assurance Engagements Other than Audits or Reviews of Historical Financial Information**

**Matters for specific comment**

**1. Do respondents believe that additional paragraphs marked as “Aus” are appropriate?**

No.

ACAG always supports initiatives that improve audit quality, balanced with what would be reasonable and appropriate in the circumstances. The quality of Limited Assurance engagements would undoubtedly be enhanced by the changes reflected as paragraphs Aus 46L.1, Aus 47L.1, Aus 48L.1 and Aus 49L.1 and their related changes to the Application Guidance. However, the effect of the changes is to require a level of work for Limited Assurance engagements that is greater than that required for some of these engagements and is therefore not appropriate for the base standard for these engagements. The proposal is also inconsistent with the international standard and the proposed Framework for Assurance Engagements, as highlighted in Attachment B.

Accordingly, ACAG is of the view that the “compelling reasons” test has not been met for the changes reflected as paragraphs Aus 46L.1, Aus 47L.1, Aus 48L.1 and Aus 49L.1 and their related changes to the Application Guidance.

ACAG is in agreement with the other Aus paragraphs.

**2. Have applicable laws and regulations been appropriately addressed in the proposed standard?**

ACAG makes no comment on this matter.

**3. Are there any references to relevant laws or regulations that have been omitted?**

ACAG makes no comment on this matter.

**4. 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?**

ACAG is not aware of any such laws or regulations.

**5. What, if any, are the additional significant costs to/benefits for auditors 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 audit services?**

ACAG is of the view that there will be additional costs to the business community arising from the proposed Aus paragraphs as indicated in our response to Question 1. This is because auditors would have to perform procedures in more depth, or detail, compared to the equivalent international engagement and compared to current practice.

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

None.

## **Other Matters**

### **1. Applicability of amendments to ASAE 3100 and ASAE 3500**

ASAE 3100 *Compliance Engagements* and ASAE 3500 *Performance Engagements* both require the application of the extant ASAE 3000. Neither of these standards has been revised for the changes proposed to be made to ASAE 3000. There are several terminology, definitional and scope differences between extant ASAE 3000 and the revised ASAE 3000. This makes it confusing and impractical to apply the new ASAE 3000 in conjunction with the attendant standards. ACAG suggests that in the short term the AUASB amend ASAE 3100 and ASAE 3500 so that these no longer require application of ASAE 3000. In the longer term ACAG is of the view that the review of these standards should form part of a comprehensive consultation on standards appropriate for direct engagements, as indicated in our covering letter.

### **2. Direct engagements**

ACAG notes that the revised standard applies only to attestation engagements but may be used for direct engagements, adapted and supplemented as necessary. Certain types of engagements conducted regularly by ACAG members are direct assurance engagements other than audits or reviews of historical financial information. ACAG does not consider the adaptation and supplementation of the revised standard to be a feasible long-term solution, since this is open to different interpretations of what is or is not appropriate. Issuance of this standard will place these assurance engagements in a standards vacuum.

ACAG encourages the AUASB to take this opportunity to develop high quality standards specific to direct engagements and looks forward to contributing to that process.

**Comparison Table for the Purpose of Responding to AUASB ED 05/13**

The table below has been prepared to illustrate the inconsistencies between the proposed Aus paragraphs of the proposed ASAE 3000 and other assurance and review standards recently adopted or in process of revision. The standards and exposure drafts were selected as they all apply to Limited Assurance engagements and have been reviewed or issued during the last two years.

Based on the tabulated comparison the following can be concluded:

1. The proposed Aus paragraphs of ASAE 3000 are mostly inconsistent with the proposed Framework.
2. The inconsistencies between the proposed ASAE 3000 and other standards should be addressed.

The table headings are from the following standards/ Exposure drafts

- Proposed ASAE 3000 – *AUASB ED 05/13 Proposed Standard on Assurance Engagements ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information*
- ISAE 3000 – *recently adopted revision to ISAE 3000 adopted by the IAASB in December 2013. The international equivalent standard to ASAE 3000*
- ASRE 2400 – *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity Issued by AUASB on 28 March 2013*
- Proposed AUASB Framework – *AUASB ED 06/13 Proposed Framework for Assurance Engagements*
- ASAE 3410 – *Assurance Engagements on Greenhouse Gas Statements (June 2012)*

Proposed ASAE 3000	ISAE 3000	ASRE 2400	Proposed AUASB Framework	ASAE 3410
<p>46L. [Deleted by the AUASB. Refer Aus 46L.1]  Aus 46L.1 The assurance practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:</p> <p>(a) Enable the assurance practitioner to identify and assess the risks of material misstatement in the subject matter information; and</p> <p>(b) Thereby, provide a basis for designing and performing procedures to respond to the assessed risks identified in paragraph Aus 46.1(a) of this ASAE and to obtain limited assurance to support the assurance practitioner's conclusion. (Ref: Para</p>	<p>46L. The practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:</p> <p>(a) Enable the practitioner to identify areas where a material misstatement of the subject matter information is likely to arise; and</p> <p>(b) Thereby, provide a basis for designing and performing procedures to address the areas identified in paragraph 45L(a) and to obtain limited assurance to support the practitioner's conclusion. (Ref: Para. A101–A104, A107)</p>	<p>45. The assurance practitioner shall obtain an understanding of the entity and its environment, and the applicable financial reporting framework, to identify areas in the financial statements where material misstatements are likely to arise and thereby provide a basis for designing procedures to address those areas. (Ref: Para. A75–A77)</p>	<p>80. A limited assurance engagement involves:</p> <p>(a) Based on an understanding of the underlying subject matter and other engagement circumstances, identifying areas where a material misstatement of the subject matter information is likely to arise;</p>	<p>33L. The assurance practitioner shall identify and assess risks of material misstatement:</p> <p>(a) At the GHG statement level; and (Ref: Para. A79–A80)</p> <p>(b) For material types of emissions and disclosures, (Ref: Para. A81) as the basis for designing and performing procedures whose nature, timing and extent:</p> <p>(c) Are responsive to assessed risks of material misstatement; and</p> <p>(d) Allow the assurance practitioner to obtain limited assurance about whether the GHG statement is prepared, in all material respects, in accordance with the applicable criteria.</p>

Proposed ASAE 3000	ISAE 3000	ASRE 2400	Proposed AUASB Framework	ASAE 3410
<p>47L. [Deleted by the AUASB. Refer Aus 47L.1]            Aus 47L.1 In obtaining an understanding of the underlying subject matter and other engagement circumstances under paragraph Aus 46L.1 of this ASAE, the assurance practitioner shall obtain an understanding of internal control over the preparation of the subject matter information relevant to the engagement, through enquiry of the personnel responsible for the subject matter information. (Ref: Para. Aus A106.1)</p>	<p>47L. In obtaining an understanding of the underlying subject matter and other engagement circumstances under paragraph 46L, the practitioner shall consider the process used to prepare the subject matter information. (Ref: Para. A106)</p>	<p>46. The assurance practitioner's understanding shall include the following:            (Ref: Para. A78, A87, A89)            (a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework;            (b) The nature of the entity, including:            (i) Its operations;            (ii) Its ownership and governance structure;            (iii) The types of investments that the entity is making and plans to make;            (iv) The way that the entity is structured and how it is financed; and            (v) The entity's objectives and strategies;            (c) The entity's accounting systems and accounting records;            (d) The entity's selection and application of accounting policies; and            Aus 46.1 (e) Internal control as it relates to the preparation of the financial statements.</p>	<p>The Framework has only three paragraphs and does not directly address this part.</p>	<p>This standard is quite prescriptive regarding what should be performed and is not really judgement based so it was difficult to find relevant judgement based paragraphs to include.</p>

Proposed ASAE 3000	ISAE 3000	ASRE 2400	Proposed AUASB Framework	ASAE 3410
<p>48L. [Deleted by the AUASB. Refer Aus 48L.1]            Aus 48L.1 Based on the assurance practitioner's understanding (see paragraph Aus 46L.1 of this ASAE), the assurance practitioner shall: (Ref: Para. A108–A112)            (a) Identify and assess the risks of material misstatement in the subject matter information; and            (b) Design and perform procedures to respond to the assessed risks identified in paragraph Aus 48L.1(a) of this ASAE and to obtain limited assurance to support the assurance practitioner's conclusion.</p>	<p>48L. Based on the practitioner's understanding (see paragraph 46L), the practitioner shall: (Ref: Para. A108–A112)            (a) Identify areas where a material misstatement of the subject matter information is likely to arise;            (b) Design and perform procedures to address the areas identified in paragraph 48L(a) and to obtain limited assurance to support the practitioner's conclusion.</p>	<p>47. In obtaining sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, the assurance practitioner shall design and perform enquiry and analytical procedures: (Ref: Para. A79–A83, A87, A89)            (a) To address all material items in the financial statements, including disclosures; and            (b) To focus on addressing areas in the financial statements where material misstatements are likely to arise.</p>	<p>(b) Designing and performing procedures to address those areas and to obtain limited assurance to support the assurance practitioner's conclusion; and  <b>Note:</b> <i>Read with paragraph (a) the practitioner should design procedures to obtain limited assurance over those areas where material misstatements are likely to arise. This is a significant scope difference compared with the ASAE 3000 proposals.</i></p>	<p>44L. Based on the assessed risks of material misstatement, the assurance practitioner shall: (Ref: Para. A103–A104)            (a) Evaluate whether:            (i) The entity has appropriately applied the requirements of the applicable criteria relevant to estimates; and            (ii) The methods for making estimates are appropriate and have been applied consistently, and whether changes, if any, in reported estimates or in the method for making them from the prior period are appropriate in the circumstances; and            (b) Consider whether other procedures are necessary in the circumstances.</p>



Proposed ASAE 3000	ISAE 3000	ASRE 2400	Proposed AUASB Framework	ASAE 3410
<p>Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement</p> <p>49L. [Deleted by the AUASB. Refer Aus 49L.1]</p> <p>Aus 49L.1 If the assurance practitioner's assessment of the risks of material misstatement in the subject matter information have changed, the assurance practitioner shall design and perform additional procedures to obtain further evidence until the assurance practitioner is able to: (Ref: Para. A112–A117)</p> <p>(a) Conclude that the matter is not likely to cause the subject matter information to be materially misstated; or</p> <p>(b) Determine that the matter(s) causes the subject matter information to be materially misstated.</p>	<p>Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement</p> <p>49L. If the practitioner becomes aware of a matter(s) that causes the practitioner to believe that the subject matter information may be materially misstated, the practitioner shall design and perform additional procedures to obtain further evidence until the practitioner is able to: (Ref: Para. A112–A117)</p> <p>(a) Conclude that the matter is not likely to cause the subject matter information to be materially misstated; or</p> <p>(b) Determine that the matter(s) causes the subject matter information to be materially misstated.</p>	<p>57. If the assurance practitioner becomes aware of a matter(s) that causes the assurance practitioner to believe the financial statements may be materially misstated, the assurance practitioner shall design and perform additional procedures sufficient to enable the assurance practitioner to: (Ref: Para. A95–A99)</p> <p>(a) Conclude that the matter(s) is not likely to cause the financial statements as a whole to be materially misstated; or</p> <p>(b) Determine that the matter(s) causes the financial statements as a whole to be materially misstated.</p>	<p>(c) If the assurance practitioner becomes aware of a matter(s) that causes the assurance practitioner to believe the subject matter information may be materially misstated, designing and performing additional procedures to obtain further evidence.</p>	<p>49L. If the assurance practitioner becomes aware of a matter(s) that causes the assurance practitioner to believe the GHG statement may be materially misstated, the assurance practitioner shall design and perform additional procedures sufficient to enable the assurance practitioner to: (Ref: Para. A109-A110)</p> <p>(a) Conclude that the matter(s) is not likely to cause the GHG statement to be materially misstated; or</p> <p>(b) Determine that the matter(s) causes the GHG statement to be materially misstated. (Ref: Para. A111)</p>