



The Institute of Public Accountants

**Proposed Standard on Assurance Engagements ASAE 34XX  
“Assurance Engagements on Controls (Replacement of AUS  
810)”**

**DATE 25 August 2014**

*Partnership beyond numbers*



**IPA** INSTITUTE OF PUBLIC  
ACCOUNTANTS

The Chairman Auditing and Assurance Standard Board
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Dear Ms Kelsall

## **Proposed Standard on Assurance Engagements ASAE 34XX “Assurance Engagements on Controls (Replacement of AUS 810)”**

### **Introduction**

The Institute of Public Accountants (IPA) welcomes the opportunity to comment on the Proposed Standard on Assurance Engagements ASAE 34XX “Assurance Engagements on Controls (Replacement of AUS 810)”. We are of the opinion that the proposed standard does not adequately address direct reporting engagements and that further guidance needs to be developed for such engagements. Accordingly, the proposed standard requires re-exposure of such guidance.

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 24,000 members nationally, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office, Australian Securities and Investment Commission and the Australian Prudential Regulatory Authority on issues affecting the profession and industry.

### **Executive Summary**

1. We welcome the Proposed Standard on Assurance Engagements ASAE 34XX “Assurance Engagements on Controls (Replacement of AUS 810)” (“the proposed standard”) in Clarity format that sets out key elements that need to be present in an assurance engagements relating to internal controls. AUS 810 is long overdue for replacement with AUS 810 being last revised in July 2002.
2. Many practitioners undertake engagements on internal controls as an increasingly significant part of their assurance practices. The issuance of this standard is a move towards promoting clarity of responsibilities of all parties involved in the engagement.
3. We believe the proposed standard needs to be re-exposed to include further guidance on addressing specific assurance engagements. Practical guidance is required to provide the assurance practitioner with relevant and a consistent approach to assurance of internal controls. The proposed standard aligns with Clarity format and ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information providing a conceptual framework rather than specific guidance for

internal control assurance engagements. There is a need to provide a contemporary context to assurance engagements on internal control.

4. The proposed standard provides guidance around how to scope, plan, conduct and report on an assurance engagement on controls. The proposed standard provides illustrative examples and detailed guidance to convey to the assurance practitioner an understanding of the types of assurance engagements and the type and extent of procedures required. The IPA supports the overall thrust of the proposed standard, however, more guidance and illustrative examples are required to make this proposed standard robust and practical for assurance practitioners, particularly in area of direct reporting.
5. We note the proposed standard tends to emphasise a specific risk, fraud, rather addressing business risks. This imbalance needs to be addressed as internal controls are not just related to the risk of fraud.
6. The proposed standard is to be operative for assurance engagements on controls commencing from 1 July 2015, with early adoption permitted. The extant standard AUS 810 is just over 20 pages while the proposed standard contains nearly 100 pages. We are concerned with the proposed time line for ASAE 34XX. In our opinion, the issuance of the standard during the latter part of this year will not provide auditors sufficient time to understand its requirements, revise policies, procedures and reporting templates, as well as make revisions to existing engagements including updating client understanding of the requirements. We strongly advocate a commencement date of 1 January 2016 if the standard proceeds as drafted.
7. We further note that internal and external quality assurance programs tend to focus on compliance with auditing standards in the context of financial statements. We believe that the Board needs to address this imbalance to the extent it can in this standard.
8. There is no mention in the proposed standard of the responsibility required by a member of both the Institute of Internal Auditors (“IIA”) and the Australian accounting bodies. We believe that there should be guidance as how a member of both organisations complies with standards adopted by the respective organisations, particularly where there are differences. We understand that practice in some instances, is to apply the standards of the IIA rather than AUS 810 and this may continue with release of the proposed Standard.

We have provided comments to specific questions raised in the proposed standard, included in Appendix A.

If you would like to discuss our comments, please contact me or our technical advisers Sonya Sinclair ([sonya@ecorac.com.au](mailto:sonya@ecorac.com.au)) or Colin Parker ([colin@gaap.com.au](mailto:colin@gaap.com.au)), GAAP Consulting.

Yours faithfully

A handwritten signature in black ink, appearing to read 'V. Stylianou', with a long horizontal flourish extending to the right.

Vicki Stylianou  
Executive General Manager Leadership

## Appendix A

### **Proposed Standard on Assurance Engagements ASAE 34XX “Assurance Engagements on Controls (Replacement of AUS 810)”**

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

The proposed standard provides a broad conceptual framework covering the overarching auditing principles rather than specific practical guidance for common assurance engagements which vary in size, complexity and the stages of an organisations internal controls development. As mentioned in the Other Explanatory Material, paragraphs A4 and A5, this proposed standard aims to capture internal controls assurance engagements relating to all subject areas.

The proposed standard tends to focus on assurance of internal controls in the context of financial statements rather than the broad compliance areas it proposes to address. We believe that applying this standard to broad subject areas and various types of organisations including APRA regulated superannuation entities, Authorised Deposit-taking Institutions, Australian Financial Services Licensees holders, emissions and energy reporting and other engagements involving a high degree of regulatory compliance requires illustrative examples on how to apply the conceptual framework to these specific assurance engagements.

The proposed standard needs to address providing direct assurance engagements during different phases of an organisation's pre-implementation and post-implementation stages of internal control systems and framework. Internal control assurance engagements have been viewed as being both attestation engagements and direct engagements. In our opinion, more focus needs to be on the direct engagements and address specific problems that are encountered by the assurance practitioner.

Control engagements may also be part of an integrated assurance approach between external and internal audit. The proposed standard should address such an approach.

It is common for professional practitioners to provide assurance engagements and consulting services. Providing examples of the two types of engagements and what may appear to impact on the independence requirements would be beneficial to ensure practitioners consider whether undertaking an engagement may compromise professional judgement and safeguards to be considered.

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 that assurance of the fair presentation of the description of the system may not provide users with increased confidence in the internal controls system, as intended. In our opinion, the approach taken should be a direct engagement to evaluate the risks specific to the organisation, business unit or subject area and evaluate whether control objectives address the specific issues.

Under the proposed standard, there should be a clearer understanding included as part of paragraph 3 or the section *Scope of this Standard on Assurance Engagements* regarding the suitability of the design and the relationship to paragraph 15 (i) *deficiency in the design of controls*. We propose the following:

- Control procedures are suitably designed if they are likely to prevent or detect errors related to the control objectives.

It is common for engagements to evaluate the pre-implementation or post-implementation of controls or operating effectiveness of control procedures in place to conclude if collectively the related control objectives are met. The internal controls assurance engagement provides the link between tests of control procedures and the adequacy of these procedures collectively to achieve the related control objectives.

3. *Is it appropriate that the scope of a controls engagements 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 it is appropriate that the scope of a controls engagement may cover a specified date for engagements including the description, design or implementation and throughout the specified period.

The scope of a controls engagement varies depending on the type and nature of the control procedures being tested and the frequency of the control procedures.

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

The proposed standard defines an Attestation engagement on controls in paragraph 15 (a) and a Direct engagement on controls in paragraph 15 (m). Paragraph 14 distinguishes who is responsible for evaluating the subject matter information between

the assurance practitioner (direct engagement) or the responsible party or evaluator (attestation engagement).

We suggest further guidance is required to address:

- the timing and extent of procedures required between the two types of engagements;
- independence issues that should be considered under a direct engagement. The subject matter information and other information that is prepared by the practitioner may threaten or raise questions regarding the assurance practitioners independence;
- providing examples in the appendix would be helpful to assurance practitioners to further clarify the different between direct engagements and attestation engagements;
- clarify that for both types of assurance engagements, they can be either be limited or reasonable assurance engagements; and
- include examples of misstatements under both an attestation and direct engagement to further illustrate the distinction between the two types of assurance engagements.

For the two types of assurance engagements (direct and attestation engagements), additional guidance is provided in Appendix 1. Further clarification could be provided as part of Appendix 1 as to which approach works best for a particular organisation or factors to consider as part of evaluating which type of assurance engagement may be appropriate. Factors to consider may include the type of organisation, the particular business area or issue.

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?*

Yes, we believe that the objective of an assurance practitioner to obtain either reasonable or limited assurance about whether the subject matter information is free from material misstatement is clear in light of the definition of a misstatement in paragraphs 15 (cc) and 15 (dd).

Further, intended users are primarily concerned with whether the subject matter is materially misstated.

We believe the definition of misstatement provided in paragraph 15 (cc) is appropriate, however, further clarification regarding the need for the assurance practitioner to obtain a good understanding about the basis of materiality as indicated in Appendix 1 of the proposed standard is required. The assurance practitioner will need to obtain knowledge about the risks in relation to the business, process or specific area to enable evaluation of meeting each control objective.

As mentioned in the response to question 4, further guidance could be provided to illustrate the distinction of a material misstatement in either an attestation engagement or a direct engagement.

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

Yes, we believe the procedures described in paragraphs 45 to 56 provide a clear distinction between limited and reasonable assurance engagements. Limited assurance engagements are less in extent than for a reasonable assurance involving enquiry and observation rather than re-performance or inspection of records as is the case for reasonable assurance engagements. Further, we support the inclusion of the information in Example 1 of Appendix 6 which describes the procedures in a limited assurance engagements and the reduced extent of procedures.

We believe it may also be appropriate to include as part of the procedures in paragraphs 45 to 56 or as part of the Appendix to the proposed standard procedures not to be undertaken as part of a limited assurance engagement. The standard currently refers to ensuring under a limited assurance, the assurance practitioner does not perform additional procedures that would covert the engagement to a reasonable assurance engagement. This should be made clearer by way of example. It may also be appropriate to include this information in the limited assurance report.

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

A limited assurance as defined in paragraph 15 (z) refers to whether a limited engagement will enhance the confidence of intended users about the subject matter. We believe this type of engagement will depend on the subject matter and criteria.

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

Appendix 1 could be further enhanced by providing a clearer understanding of each party's responsibilities (that is, management or evaluator, assurance practitioner and the intended user) under an attestation engagement and a direct engagement.



Appendix 2 – no comments.

Appendix 3 provides an example of a materiality assessment matrix for overall control objectives. Additional information by way of examples should be provided to explain where issues may have a high or medium impact on the business and the significance to stakeholders resulting in a material or pervasive objectives.

Appendix 4, 5 and Appendix 6 – no comments other than those already provided.

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?*

We believe the proposed standard is a move towards promoting consistency in practice in relation to assurance engagement on controls, however as mentioned in previous comments above, specific guidance is required for the various internal controls assurance engagements commonly encountered by the assurance practitioner.

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

No further comment provided other than those comments already raised.