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Basis for Conclusions ***ASAE 3150 Assurance Engagements on*** ***Controls***

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



Australian Government

Auditing and Assurance Standards Board

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Basis for Conclusions ASAE 3150 Assurance Engagements on Controls

Basis for Conclusions ASAE 3150 *Assurance Engagements on Controls* 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 3150.

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BASIS FOR CONCLUSIONS

ASAE 3150 Assurance Engagements on Controls

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 3150 *Assurance Engagements on Controls*, and is not a substitute for reading the Standard.

Background

1. The AUASB has issued a new Standard on Assurance Engagements, ASAE 3150 *Assurance Engagements on Controls*, to replace AUS 810 *Special Purpose Reports on the Effectiveness of Control Procedures*, last revised by the former AuASB in 2002. ASAE 3150 is operative for assurance engagements commencing on or after 1 January 2016, with early adoption permitted. ASAE 3150 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 *Engagements Other than Audits or Reviews of Historical Financial Information*,¹ when accepting, planning, performing and reporting on controls. ASAE 3150 requires assurance to be obtained on the design of controls for all assurance engagements on controls and, if included in the scope of the engagement, the description of the system of controls and/or, implementation of controls as at a point in time or operating effectiveness of controls over a period.
2. The AUASB’s project on controls to develop a standard to replace AUS 810 was conducted with input from the NZAuASB and with the advice of a Project Advisory Group comprising assurance practitioners from both Australia and New Zealand. An exposure draft ED 01/14 of the proposed standard was issued by the AUASB on 25 June 2014 in Australia for a 60 day exposure period, following the issuance of revised ASAE 3000 on 24 June 2014. The comment period closed on 25 August 2014 and 9 submissions were received. The AUASB considered all submissions received, and in response, made a number of amendments to proposed ASAE 3150.
3. Submissions on the exposure draft were received from:
 - Australasian Council of Auditors-General (ACAG)
 - Netbalance
 - Institute of Public Accountants (IPA)
 - KPMG
 - Chartered Accountants ANZ and CPA Australia (CPAA & CA ANZ)
 - Deloitte
 - Ernst & Young (EY)
 - PricewaterhouseCoopers (PwC)
 - Institute of Internal Auditors (IIA-Australia)
4. During the exposure period a roundtable discussion was held to obtain direct informal feedback from stakeholders and encourage discussion of the proposed standard.
5. The Australian Government’s Office of Best Practice Regulation (OBPR) provided clearance for the proposed standard in August, as they considered that the regulatory impacts of the

¹ As revised by the AUASB in June 2014.

proposed revised standard are likely to be minor and consequently no regulatory impact statement was required.

6. ASAE 3150 was subsequently approved by out-of-session resolution by the AUASB on 18 December 2014, with 13 votes in favour.

Scope

7. ASAE 3150 applies to reasonable and limited assurance engagements to provide an assurance report on controls at an entity, conducted as an attestation or a direct engagement. The scope of an ASAE 3150 engagement specifically excludes engagements to which ASAE 3402 *Assurance Reports on Controls at a Service Organisation* is applicable, which are assurance engagements to provide an assurance report for use by user entities and their auditors, on the controls at a service organisation that provides a service to user entities that is likely to be relevant to user entities' internal control as it relates to financial reporting.

Major Issues raised by Respondents on Exposure

The following summarises the major issues raised by respondents to Exposure Draft ED 01/14 *Assurance Engagements on Controls (Replacement of AUS 810)* (ED 01/14) issued on 25 June 2014 and how the AUASB has addressed those issues.

Issue 1: Operative Date

8. One respondent requested that the operative date be delayed to allow for the new standard to be implemented by assurance practitioners.
9. In response, the AUASB considered it appropriate to extend the operative date by six months to engagements commencing 1 January 2016, with early adoption permitted.

Issue 2: Controls not Triggered to Operate During the Period

10. Some respondents requested that the standard address how to provide assurance over the operating effectiveness of controls where a control has not needed to operate in the period, as it was not triggered, and whether a limitation of scope is required in these circumstances.
11. In response, the AUASB considered that a limitation of scope would not ordinarily be necessary if the assurance practitioner were satisfied that the circumstances necessary to trigger the control did not arise. A requirement paragraph 60 and application material paragraph A100 were added to address this issue.

Issue 3: Attestation versus Direct Assurance Engagements

12. Some respondents requested further clarification of the difference in procedures between attestation and direct assurance engagements.
13. In response, the AUASB amended the requirements regarding the assurance practitioner's procedures in planning for attestation and direct engagements in paragraphs 32 and 33. In addition, the AUASB provided further application material in paragraphs A18 and A44 regarding the additional work effort in planning a direct engagement and in agreeing whether to undertake an attestation or direct engagement in the terms of engagement, paragraphs A28, A29, A38 and A39.

Issue 4: Meaningful Level of Assurance

14. When accepting a limited assurance engagement, some respondents highlighted the need for the assurance practitioner to consider whether limited assurance would be a meaningful level of assurance, which would be understood by users. Respondents noted that consideration would need to be given to the intended user's needs and whether they have a sufficient understanding of the level of assurance that has been agreed. In addition, some respondents noted that assurance procedures may not always be restricted to enquiry and would often need to extend to limited testing or walk-throughs.

15. In response, the AUASB amended the application material, on accepting an engagement in paragraph A15, to address whether a limited assurance engagement is likely to be meaningful to users and whether they are likely to understand the limitations of a limited assurance engagement. The AUASB also clarified the procedures which are required to be conducted, under paragraph 57L, on operating effectiveness of controls in a limited assurance engagement in order to obtain a meaningful level of assurance.

Issue 5: Further Appendices Recommended

16. Respondents requested the following changes to the examples provide in the appendices and additional appendices:
- a. engagement letter for a limited assurance engagement;
 - b. the engagement letter examples to reflect a direct engagement on design and implementation;
 - c. examples of a system description and an attestation (responsible party or evaluator’s Statement);
 - d. clarification of difference in reporting between attestation and direct engagements and short-form versus long-form reports;
 - e. additional consideration of service organisations; and
 - f. inclusion of adverse and disclaimer conclusions in the modified assurance report examples.
17. The AUASB included examples as requested as follows:
- a. Appendix 5 example 1: engagement letter for a limited assurance engagement;
 - b. Appendix 5 example 3: engagement letter examples for a direct engagement on design and implementation;
 - c. Appendix 7: responsible party’s Statement and system description;
 - d. Appendix 8: clarified that example reports are presented in the short form with additional material optional for a long-form report; clarified that all example reports can be applied to attestation and direct engagements with optional inclusion of reference to the responsible party’s Statement in an attestation engagement; and
 - e. Appendix 9 examples 4 and 6: example adverse and disclaimer opinions.

Issue 6: Service Organisations

18. One respondent suggested that service organisations and sub-service organisations be considered more fully, submitting that: “The standard needs to further contemplate service organisations and the inclusive method in the acceptance and continuance paragraphs as well as agreeing the terms of the engagement and representation letters and appendix examples because of the unique considerations and the increased presence of service organisations in the market.”
19. In response, the AUASB has added a definition of service organisation (para. 17(pp)) and requirements to include:
- a. identification of controls operated at a service organisation in the description of the system, if applicable, and whether the inclusive or carve-out method has been used; (para. 51, Appendix 7)
 - b. in the terms of engagement, the responsible party’s responsibility is to obtain information from the service organisation; (para. 24); and

- c. in the engagement letter (para. 25, Appendix 5), representation letter (para. 80, Appendix 6) and the assurance report (para. 89, Appendix 8), whether the inclusive or carve-out method has been used with respect to controls operated at a third party or service organisation.

Issue 7: Ban on Direct Assistance by Internal Audit

20. One respondent, and participants in the Roundtable discussion, requested clarification of whether direct assistance by internal audit is expressly prohibited, in order to assist the assurance practitioner in determining how to work with internal audit and the appropriate boundary for reliance on their work.
21. In response, the AUASB added a requirement prohibiting the use of internal auditors to provide direct assistance, and clarifying that this does not preclude reliance on the work of the internal audit function to modify the nature or timing, or reduce the extent, of assurance procedures to be performed directly by the assurance practitioner (para. 42).

Issue 8: Long Form and Short Form Reports

22. One respondent considered that the exposure draft was not clear on the difference between a short and long-form report and in addition, submitted that further guidance was needed for assurance practitioners regarding circumstances when a long-form report would be appropriate rather than a short-form report.
23. In response, the AUASB clarified the definition of long-form report (para. 17(dd)), included additional requirements regarding when a long-form report may be appropriate and the form of a long-form report (para. 90), provided further guidance on the additional material which may be contained in a long-form report (para. A37) and inserted a section in the example assurance reports for additional information which may be provided in a long-form report (Appendix 8).

Issue 9: Materiality

24. One respondent submitted that the application material on materiality was too lengthy and introduced too many levels of materiality.
25. In response, the AUASB redrafted the requirements relating to materiality (paras. 34-36) and clarified the application material on materiality (paras. A49-A54). In considering the redrafted application material some members of the AUASB queried the value of the materiality matrix (Appendix 4) and the need for the related guidance (para. A48). However, as the materiality matrix had been identified by participants at the Roundtable as useful in these engagements it was retained in the final standard.

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 out-of-session on 18 December 2014 to approve and issue ASAE 3150.
