



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **7.1**
Meeting Date: 28 October 2013
Subject: Assurance Engagements on Controls
Date Prepared: 17 October 2013

Background

A second draft of the proposed standard on assurance engagements ASAE 34XX *Assurance Engagements on Controls* was presented to the AUASB meeting in July 2013. The AUASB made the following recommendations with respect to further drafting:

1. **Internal Audit** – The AUASB requested that the nature of reliance on the work of internal audit be clarified and a consistent approach applied to that taken in revised ASA 610.
2. **Implementation of Controls** – The AUASB considered that implementation could only be tested at a point in time or points in time, as although implementation was a process it could only be concluded once complete and furthermore the work effort required for testing of implementation over a period of time was not readily distinguishable from the work effort required to test operating effectiveness.
3. **Engagement objectives** – The AUASB requested that the description of the objectives of the engagement be consistent with the responsible party's representations and the assurance practitioner's conclusions.
4. **Direct Engagements** – The AUASB requested that the standard ensure that direct engagements were adequately addressed as they are no longer covered explicitly in the revised ISAE 3000.
5. **Flowchart** – The AUASB considered that the flowchart in Appendix 1 on determining the nature of assurance engagement on controls was inconsistent with the tables in that Appendix and either needed revisions or removal.

The AUASB requested that the draft standard be brought back to the October meeting for approval as an ED.

Matters to Consider

The Project Advisory Group had a discussion on 12 September 2013 and considered a further draft of ASAE 34XX reflecting amendments to address matters raised by the AUASB at the 29 July meeting. Further matters raised by the PAG included:

1. **Responsible Party's responsibilities** – The PAG noted that the responsible party was still responsible for the design and operating effectiveness of controls in a direct engagement, even though they did not evaluate the controls against the criteria or control objectives.
2. **Sampling** – The PAG recommended some amendments to the requirements for sampling to ensure that it reflects the approach in ASA 530, to the extent that it is applicable to controls engagements. Clarification of which requirements on obtaining evidence are applicable to limited assurance engagements as sampling may not be conducted for limited assurance engagements
3. **Rotation of testing** – The PAG discussed the approach to rotation of testing of controls or systems and agreed that some minimum testing was required on areas rotated out.

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4. Subsequent Events – The PAG recommended inclusion of reporting on remedial action where subsequent events were identified.

The AUASB Technical Group has continued drafting and has made the following changes in response to the AUASB and PAG's comments:

- Inclusion of system characteristics of IT-enabled systems and risks arising from IT (para.4, 29, 49, 54, A46-A50, A68 & A76).
- Examples of the nature of reports which are appropriate in different circumstances (para.5).
- Simplification of the examples of compliance with regulatory requirements for controls assurance (para.9).
- Clarification of the objectives of an assurance engagement on controls and alignment with the terms of engagement, report conclusion and responsible party's representations (para.14, 15, 21 & 76)
- Addition of definitions for terms used in the draft standard and relocation of definitions from body of standard to the definition section (para.16).
- Clarification of the hierarchy of standards where multiple standards are relevant to a controls engagement (para.12-13, 17-18).
- Inclusion of implementation as a separate matter which may be included in the scope of the engagement along with material on the related criteria and obtaining evidence on implementation (para.29, 52-54 & A67-A68).
- Addressing of fraud risks and responses to identified fraud (para.32-33, 39, 41-43, 64-66, 92, A55 & A63-A64).
- Use of the terms: overall objectives, instead of assertions, and specific objectives, with respect to the criteria against which to evaluate controls (para.44 and throughout)
- Clarification of the impact of the work of the internal audit function and circumstances where modified independence requirements may be agreed (para.69-73).
- Nature of the response to subsequent events identified (para.79).
- The variable levels of detail in reporting on controls, as well as long form and short form reports and when they are appropriate (para.A12-A13).
- Inclusion of application material on assessing the appropriateness of the subject matter (para.A22).
- Materiality benchmarks and evaluation of significant deficiencies (para.A35-A36, A70 & A92-A93).
- Further explanation of the components of control (para.A41-A42).
- Application material on sampling (para.A79-A84).
- Work performed by experts (para.A85-A88).
- Simplification of tables and flowchart in Appendix 1 into a single table (Appendix 1).
- Inclusion of independence and quality control paragraph in the assurance reports (Appendix 4).
- Consideration was given to other detailed matters raised by AUASB members and PAG members.

The PAG will also be considering this draft in late October.

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Whilst the AUASB Technical Group anticipated bringing the draft standard back to the 28 October 2013 meeting for approval as an ED, this has not been possible due to the delay in availability of the final revised ISAE 3000 and so also the delay in preparation of an ED of revised ASAE 3000, the equivalent standard in Australia.

The final ISAE 3000 was approved by the IAASB at the September meeting, however now it awaits PIOB approval. Once PIOB approval is provided, an ED of ASAE 3000 can be prepared for the AUASB's consideration, which is anticipated to be available for the 2 December AUASB meeting. As ASAE 34XX anchors to ASAE 3000, the AUASB decided at the 17 June meeting, that the exposure draft for ASAE 34XX should be withheld until an ED for a revised ASAE 3000 was ready, so that they could be exposed together. This is likely to delay the approval of an ED of ASAE 34XX until the 24 February 2014 AUASB meeting, depending on the timing of the release of ISAE 3000.

Feedback Sought

The AUASB is requested to provide any comments on the approach taken to drafting of ASAE 34XX since the 29 July AUASB meeting. The AUASB may want to consider specifically, whether the approach to the following matters is appropriate:

1. Adequacy of the introduction and Appendix 1 in clarifying the nature of engagements addressed by the standard (para.3-11).
2. Hierarchy of standards (para.12-13, 17-18)
3. Implementation
 - suitability of the criteria (para.29).
 - obtaining evidence (para.52-54, A67-A68).
4. Description of impacts of IT
 - Risks (para.A46-A50)
 - Implementation of IT systems (para.54)
5. Material misstatement expressed as significant deficiency for design, implementation and operating effectiveness of controls (para.A35-A36, A70 & A92-A93).

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