



# AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.**        **4**  
**Meeting Date:**            21 October 2014  
**Subject:**                    Assurance Engagements on Controls  
**Date Prepared:**            14 October 2014

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**Action Required**

**For Information Purposes Only**

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## Agenda Item Objectives

1. To present the AUASB Comments Received and Disposition Paper for Exposure Draft ED 01/14 for the AUASB's consideration.
2. To provide a revised draft of proposed ASAE 34XX *Assurance Engagements on Controls*, reflecting the disposition paper.

## Background

The AUASB's project on controls to develop a standard to replace AUS 810 *Special Purpose Reports on the Effectiveness of Control Procedures* (2002) has been conducted in conjunction with NZAuASB and with the advice of a Project Advisory Group comprising stakeholders from both Australia and New Zealand. An exposure draft ED 01/14 of the proposed standard was issued on 25 June 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 up to 2 September.

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)

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Some overall comments received from the ED submissions and a summary of the comments received with respect to the questions on exposure were presented at the September AUASB meeting. During the exposure period a roundtable discussion was held to obtain direct informal feedback from stakeholders and encourage discussion of the proposed standard.

The Office of Best Practice Regulation (OBPR) provided clearance for the proposed standard in August, as they consider that the regulatory impacts of the proposed revised standard are likely to be minor and consequently no regulatory impact statement is required.

## **Matters to Consider**

### ***Part A – General***

1. The detailed comments received on exposure are now presented in Agenda Item 4.1 along with a response to each comment and reference to proposed amendments, if any, in the draft standard, presented at Agenda Item 4.2. A further draft is presented, but is not ready for approval, as most but not all of the comments received have been addressed and the draft standard still requires some further amendments. Matters still to be addressed are marked as “outstanding” in the commentary or flagged with a comment in the margin in Agenda Item 4.1.

2. Responses to the questions raised on exposure in the ED Submissions were in summary:

*Q1. Does this standard address the scope of all common engagements where assurance practitioners are requested, or required to provide assurance on controls?*

Yes – 8; No – 1

Most respondents agreed that the standard addresses all common engagements, whilst still raising a number of areas which could be addressed more fully including service organisations’ controls which did not fall within the scope of ASAE 3402 and direct engagements.

Outstanding matters to consider further:

- Whether service organisations, excluding those covered by ASAE 3402, can be addressed more extensively.

*Q2. 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?*

Yes – 7; No – 2

7 respondents agreed that all engagements need to conclude on design, one respondent did not disagree, but provided some additional comments, whereas one respondent considered that operating effectiveness could be concluded upon separately. Respondents asked for guidance on how to respond if a control which was not triggered and so did not operate during the period, which was addressed in amendments.

Outstanding matters to consider further:

- Further guidance on the need to test and conclude on design as a basis for testing description, implementation or operating effectiveness for all engagements whether included in scope of the engagement or not.

*Q3. 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 – 8; No – 1

Most respondents agreed with the scope of controls engagements at a specified date or throughout the period. Three respondents noted that a minimum period should be necessary for concluding on operating effectiveness, which was addressed in amendments..

Outstanding matters to consider further:

- Guidance regarding the basis for determining an appropriate period for operating effectiveness.

Q4. *Are the considerations for conducting a direct engagement adequately differentiated from an attestation engagement?*

Yes – 7; No – 2

7 respondents considered that direct and attestation engagements are adequately differentiated and 2 respondents considered that further guidance was required on this matter. Requirements and guidance was amended to further clarify to difference in work, particularly in the acceptance and planning (paragraphs, 31-32, A21, A31 & A47).

Q5. *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:*

- misstatements in the description of the system;*
- deficiencies in the suitability of the design to achieve the control objectives;*
- deficiencies in the implementation of controls as designed; or*
- deviations in the operating effectiveness of controls as designed?*

Yes – 8; No – 1

Most respondents were in agreement with the interpretation of the objectives, with 2 respondents asking for further clarification of criteria and materiality. Criteria was further explained (A139) with the concept of main criteria and additional criteria included in guidance (22, A18-A20). Amendments to the guidance on materiality were made with further work required.

Outstanding matters to consider further:

- Further consideration of the clearest way of explaining the criteria.
- Guidance to clarify application of materiality to controls engagements.

Q6. *Are the procedures required for limited and reasonable assurance appropriate and adequately distinguished?*

Yes – 7; No – 2

7 respondents considered that limited and reasonable assurance procedures were adequately addressed, one respondent considered that this was a key area which required improvement and another respondent considered that further work may be necessary for a limited assurance engagement, but not solely when it is necessary to dispel or confirm a suspicion. Further clarification of when to accept a limited assurance engagement was added (A16) and amendments were made to require ordinarily walk-throughs even if no suspicion was raised (54L).

Q7. *Is a limited assurance engagement on controls a meaningful engagement?*

Yes – 8; No – 1

8 respondents agreed that limited assurance engagements should be able to be conducted on controls, although some respondents noted that these engagements may not always be appropriate and one respondent considered that further guidance was necessary with respect to circumstances when a limited assurance engagement would be appropriate. Further guidance was added (A16) regarding whether limited assurance would provide a meaningful level of assurance.

*Q8. Are the appendices included appropriate and are sufficient example assurance reports included to address the most common engagements on controls?*

Yes – 6; No – 3

Whilst 6 of the respondents were supportive of the appendices provided, several respondents considered that the examples could be expanded upon, citing additional engagements which could be addressed and identifying specific improvements to be made to the appendices, as well as suggesting inclusion of a long form report and an example of a system description. Example responsible party statements, for attestation and direct engagements, and an example description were added, both of which require further refinement if the AUASB agree to retain these examples. Adverse and disclaimer reasonable assurance opinions were added to the examples of modified reports and all modified reports were shown as reasonable assurance engagements to better clarify the content. Details of matters to insert for a long form report were added.

Outstanding matters to consider further:

- Whether the long form report content should be more prescriptive, allowing for additional information such as recommendations to be added to either short or long form report as needed.
- Respondents detailed comments on appendices to be addressed.
- Consider how service organisations can best be addressed in the examples.

*Q9. 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?*

Benefits – 8; Costs – 1

A number of respondents noted significant benefits of the proposed standard but did not identify any significant additional costs which the new standard would impose, except one who noted it may be costly for small engagements, and were overall supportive of the AUASB developing a revised standard on controls. Some refinement of the required procedures for implementation was requested some of which were addressed.

Outstanding matters to consider further:

- Minimum procedures for implementation.

*Q10. Are there any other significant public interest matters that constituents wish to raise?*

Yes (issues to raise) – 7; No – 2

Only one respondent had further public interest matters to raise which related specifically to inclusion of further material on service organisations where the inclusive method is used and clarification regarding whether direct assistance is prohibited, both of which need to be considered further.

Outstanding matters to consider further:

- Address inclusive method for service organisations.
- Clarification of the ban on use of direct assistance by internal audit.

*Typographical errors and amendments to specific paragraphs and appendices:*

Respondents provided extensive detailed comments on the wording of specific paragraphs and appendices which are addressed in amendments to the draft standard in the vast majority of cases as set out in Agenda Item 4.1 Exhibit 2, with some suggested changes not made based on the reasons provided in that attachment.

*Overall Comments:*

Whilst most respondents were supportive of the overall approach in the exposure draft, 2 respondents raised a number of issues as overall comments for consideration, addressed in Agenda Item 4.1 Exhibit 3, requesting:

- Further guidance on direct engagements – provided guidance with respect to acceptance and planning.
- Guidance on appropriate circumstances for acceptance of a limited assurance engagement and clarification of the differences between limited and reasonable assurance engagements – provided and consider if further guidance still needed.
- Fraud risks over emphasised – due to ASAE 3000 not addressing these risks but further consideration outstanding.
- Delay of the operative date until engagements commencing 1 January 2016 – agreed at September meeting and amended.
- Further guidance on overall objectives – outstanding.
- Further guidance on applying materiality - outstanding.
- Clarification of the differences between a short form and long form report – addressed but consider further whether long form should specify content including controls, tests and findings and any other material such as recommendations could be added to short or long form reports if required by users.
- Guidance on how to report on controls which did not operate during the period - provided.
- Guidance on engagements where multiple conclusions are required on different subject matters, including a conclusion on controls - provided.

The following overall comments are raised but did not result in any amendments to the standard:

- Quality assurance should be less focussed on financial statement audit – outside of scope of this standard.
- Guidance for internal auditors – standard does not apply to IA.
- Difference between limited and reasonable assurance not well understood – outside of the scope of this standard.
- Inclusion of the more detailed criteria in the assurance report – not appropriate to require reporting of more detailed criteria than control objectives, but may be included if agreed in the scope.

***Part B – NZ AuASB***

In New Zealand a corresponding exposure draft 2014-3 was issued in July with a 90 day comment period due to end on 31 October 2014. The NZAuASB has also conducted two roundtable discussions on the ED in late September in NZ.

***Part C – “Compelling Reasons” Assessment***

Not applicable as there is no IAASB equivalent standard on controls.

## **AUASB Technical Group Recommendations**

The AUASB Technical Group will prepare the standard to present for approval at the 25 November AUASB meeting by:

- addressing the outstanding matters raised in the disposition;
- addressing matters raised at the October meeting;
- undertaking a complete edit of the draft;
- consulting with the Project Advisory Group on outstanding matters identified; and
- completing internal quality assurance.

The AUASB Technical Group recommend that the AUASB consider the disposition of comments and draft standard and provide feedback on the approach to matters raised by respondents to ED 01/14.

## **Material Presented**

Agenda Item 4	AUASB Board Meeting Summary Paper
Agenda Item 4.1	AUASB Comments Received and Proposed Disposition Paper – ED 01/14 [Confidential]
Agenda Item 4.2	Draft Standard on Assurance Engagements ASAE 34XX <i>Assurance Engagements to Conclude on Controls</i> (Marked Up Version) [Confidential]

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