



CHARTERED ACCOUNTANTS
AUSTRALIA • NEW ZEALAND

26 October 2016

Merran Kelsall FCA
The Chairman
Australian Auditing and Assurance Standards Board
PO Box 204
Collins Street West
Melbourne 8007

Submission via website

Dear Merran

Submission on Exposure Draft 04/16: Proposed Standard on Assurance Engagements ASAE 3100 Compliance Engagements

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the opportunity to comment on the Exposure Draft (“the ED”). We commend the Australian Auditing and Assurance Standards Board (AUASB) for taking this opportunity to work with the New Zealand Auditing and Assurance Standards Board (NZAuASB) to jointly develop this proposed standard. Our responses to the specific questions raised in the paper are set out in Appendix A. Appendix B includes more information about CA ANZ.

General Comments

We recognise the increasing prevalence of, and demand for, compliance engagements and support the collaborative efforts to establish requirements and provide application and other explanatory material in this regard. We note that while there are requirements for compliance engagements in some jurisdictions, there is no similar comprehensive pronouncement internationally. Given that the increasing importance of compliance engagements is an international trend, we recommend and support the promotion of the final standard with international standard setters.

Materiality

One of the most challenging aspects of a compliance engagement in practice is materiality, both in the planning stages to determine what a material instance of non-compliance is and in evaluating the instances of non-compliance to determine whether the assurance practitioner’s conclusion should be modified. The assurance practitioner must apply professional judgement to understand the needs of the intended users and what is material to them, to consider largely qualitative factors to determine materiality and to evaluate when instances of non-compliance should be considered to be pervasive when determining the nature of a modification to their conclusion.

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Because compliance engagements are becoming increasingly prevalent in areas such as the not-for-profit sector where compliance requirements may be included in grant agreements, these engagements may be performed by a range of assurance practitioners and their experience considering materiality in non-financial assurance potentially varies widely.

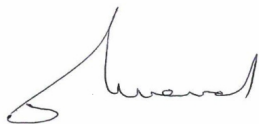
The revised ASAE appears to have slightly less material on materiality than extant ASAE 3100. Given that the correct application of materiality is key to these engagements and challenging for practitioners, we encourage the board to consider whether further material to assist practitioner's with applying materiality in compliance engagements can be included either in the standard or provided as guidance material in another format.

Terminology

We note that the ED introduces several new terms to describe the various aspects of a compliance engagement. While we understand that these are useful concepts to assist the assurance practitioners to perform the engagements, we found the definitions to be somewhat confusing when reading the standard. The guidance in the Appendices assists in clarifying the differences between the compliance activity, the compliance outcome, the compliance requirements and the criteria, however, we believe it would be useful for practitioners if an additional appendix (in diagram format) was included that demonstrates how all these aspects of a compliance engagement, as well the compliance framework fit together.

Should you have any queries concerning the matters in this submission, or wish to discuss them in further detail, please contact Geraldine Magarey (Acting Audit and Insolvency Leader) via email at geraldine.magarey@charteredaccountantsanz.com or phone 02 9290 5597.

Yours sincerely



Rob Ward FCA AM
Head of Leadership and Advocacy

Appendix A: Responses to specific questions

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

We believe they are adequately addressed.

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

We do not believe so. The inclusion of some common kinds of Australian regulatory compliance engagements in Appendix 3 is useful. It may also be useful to include an example in this Appendix which is not regulation driven, such as compliance with the requirements of a bank covenant to reinforce the point that compliance engagements may be requested by a client due to requirements other than regulation or legislation

3. 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?

Not that we are aware of.

4. Is there a need for the proposed standard to address both direct and attestation engagements? If yes, are the considerations for conducting a direct engagement adequately differentiated from an attestation engagement?

We understand direct engagements are more prevalent in practice, but we agree there is a need for the proposed standard to address both direct and attestation engagements.

In our view the differentiation between a direct and an attestation engagement could be clearer. We recommend an overarching statement to the effect of “If this ASAE makes reference to a requirement, that requirement shall be applied to both attestation and direct engagements, unless specified otherwise” similar to the statement regarding ASAE 3000 in paragraph 18. Furthermore, we recommend the removal of the following superfluous statements:

- Paragraph 17(s) [definition of ‘non-compliance’] - “for both attestation and direct engagements on compliance...”
- Paragraph 56 - “for attestation engagements and shall also apply those requirements for direct engagements”
- Paragraph 57 - “For both attestation and direct engagements”

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

We support the approach taken in this aspect of the ED. We recognise there are challenges involved in articulating requirements to achieve a meaningful level of assurance in a limited assurance compliance engagement, while still differentiating appropriately from a reasonable assurance compliance engagement. However, we believe that the proposed standard is a useful starting point.

6. 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 compliance engagements?

We have not assessed the cost implications of the proposed standard. However, it is likely that there will be additional costs in complying with revised standard when compared to the extant standard due to the revised approach and greater detail in the requirements. However, the quality of the compliance engagement is likely to increase as a result of applying the enhanced requirements in the proposed standard. Therefore, we believe that the benefits outweigh the costs.

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

We have no other significant public interest matters to raise. However, we do have the following minor drafting points we wish to raise for your consideration:

- a) The definition of 'misstatement' in paragraph 17(r) only refers to attestation engagements and differences between the statement and the assurance practitioner's evaluation of compliance with the compliance requirements. However, paragraph 49 includes a statement that a misstatements are "instances of non-compliance with the compliance requirements". Therefore there is a conflict in the definition between the two paragraphs. We recommend that the definition in 17(r) be expanded to define misstatement in the context of both a direct and an attestation engagement. The sentence defining misstatements in paragraph 49 could then be removed or amended to refer to the definitions in 17(r).
- b) Paragraph 61 on modified conclusions and paragraph 62 on scope limitation may be better placed under Forming the Assurance Conclusion with paragraphs 54-55.

Appendix B: About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations. We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.