

# Perspective

This is one of a series of articles where experts in assurance, reporting and regulatory matters discuss recent technical and policy developments in these areas.



## Compliance engagement requirements set to be clearer

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**April 2017**

### **Introduction – the revision of ASAE 3100**

A streamlined approach to compliance engagements has been developed by the AUASB as the basis for the revised standard, ASAE 3100 *Compliance Engagements* (ASAE 3100), issued in February this year.

The revision of ASAE 3100 is part of the AUASB's revision of all standards on assurance engagements that anchor to ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, the overarching standard for assurance engagements which was revised in mid-2014 in line with the International Auditing and Assurance Standards Board revision of ISAE 3000.

Unlike ASAE 3000 – which conforms to its international equivalent – ASAE 3100 is an Australian standard that has also been issued in New Zealand<sup>1</sup>. In undertaking this project, the AUASB collaborated with the New Zealand Auditing and Assurance Standards Board and consulted extensively using a project advisory group, thereby drawing on the expertise of both Australian and New Zealand assurance practitioners.

### **Aim of the Revision**

The revised ASAE 3100 will help assurance practitioners promote a high-quality and consistent approach on compliance engagements by providing:

- clearer objectives and detailed requirements
- further application material for planning, performing and reporting on compliance engagements
- a comprehensive set of example letters and reports.

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<sup>1</sup> The New Zealand Auditing and Assurance Standards Board also issued the equivalent revised SAE 3100 *Assurance on Compliance Engagements* in March.

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## Applying ASAE 3100

When determining the scope of an assurance engagement on compliance, six matters should be considered:

1. *Type of Engagement* – attestation or direct?
2. *Assurance Level* – is limited or reasonable assurance to be obtained?
3. *Intended Users* – who are the intended users of the assurance report?
4. *Engagement Timing* – is the engagement to be conducted at a specified date or throughout a specified period?
5. *Compliance Requirements* – against which requirements will the compliance activity be evaluated?
6. *Reporting* – is the assurance report required to be in short or long form?

### 1. *Type of Engagement*

An attestation engagement is possible if the responsible party provides a statement regarding the outcome of their evaluation of the entity's compliance with the compliance requirements against the suitable criteria. In a direct engagement, the entity does not need to conduct their own evaluation nor provide a statement.

Accordingly, in direct engagements, the assurance practitioner expects additional work effort in planning the engagement and understanding the compliance activities and other engagement circumstances. Additionally, the assurance practitioner usually considers whether the identification of criteria is appropriate, whereas in an attestation engagement, the entity undertakes this work as a basis for their statement.

### 2. *Assurance Level*

When accepting a limited assurance engagement – rather than a reasonable assurance engagement – the assurance practitioner considers whether that level of assurance will be meaningful to users, particularly if users will understand the limitations of a limited assurance conclusion.

### 3. *Intended Users*

An assurance engagement on compliance can have varied users, from those charged with governance of the entity, or a specified third party (e.g. regulator) and can be for restricted use or made publicly available.

### 4. *Engagement Timing*

The needs of the users and the period in which the compliance activity has been in place are considered in agreeing the specified date or the specified period covered by the compliance engagement, so that the assurance report is not likely to be misleading.

### 5. *Compliance Requirements*

Compliance requirements are the subject matter of a broad spectrum of compliance engagements that may:

- form part of regulation or law in certain industries, e.g. Australian Prudential Regulation Authority regulated entities (Authorised) Deposit Taking Institutions; general, life and health insurers and registrable superannuation entities
- be initiated by those charged with governance of the entity or third party users for other purposes.

ASAE 3100 addresses the requirements assurance practitioners consider when engaging, planning, performing and reporting on an entity's compliance with requirements that are evaluated against suitable criteria by the assurance practitioner. The suitable criteria may be the compliance requirements or a subset thereof. A table explaining this concept is contained in an appendix to the revised standard.

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To fulfil the requirements of the standard – with the work effort dependent on the level of assurance being obtained – the assurance practitioner must:

- identify the compliance requirements and assess the suitability of the criteria
- understand the compliance framework and the requirements
- identify and respond to risks that may cause non-compliance
- obtain evidence pertaining to compliance activities undertaken (to meet the compliance requirements)
- apply professional judgement in determining the nature, timing and extent of procedures to be conducted (based on the above)
- evaluate the evidence obtained; and
- form the assurance conclusion and prepare the assurance report.

When conducting the compliance engagement, it can be challenging for assurance practitioners to determine what procedures should be conducted to obtain *limited* as opposed to *reasonable* assurance.

While this is a matter for the assurance practitioner's professional judgement, ASAE 3100 provides guidance by identifying the nature of procedures that are conducted at a minimum – in a *limited* assurance engagement – and the additional procedures that are conducted in a *reasonable* assurance engagement (Table 1).

Scope of engagement	Limited assurance minimum procedures	Additional procedures to obtain reasonable assurance
Understanding the compliance framework and requirements	<p>Direct</p> <ul style="list-style-type: none"> <li>• consider identification of criteria is appropriate</li> </ul> <p>Attestation</p> <ul style="list-style-type: none"> <li>• identify and respond to risks that may cause non-compliance</li> </ul>	<p>Direct and Attestation</p> <ul style="list-style-type: none"> <li>• assess the risks that may cause non-compliance</li> <li>• understand relevant internal controls over the compliance activity</li> <li>• evaluate design of controls and determine if implemented</li> </ul>
Obtaining evidence – compliance activity	<ul style="list-style-type: none"> <li>• discussion and enquiries</li> <li>• observation</li> <li>• walk-throughs</li> </ul>	<ul style="list-style-type: none"> <li>• re-performance on a test basis</li> <li>• other examination on a test basis</li> <li>• consider the characteristics of the population to be tested and evaluated</li> </ul>

Table 1. The nature of procedures that are conducted at a minimum – in a *limited* assurance engagement – and the additional procedures that are conducted in a *reasonable* assurance engagement.

While procedures chosen by the assurance practitioner will be impacted by the level of assurance required, they also depend on:

- risks identified
- compliance activities undertaken
- findings and evaluation of evidence during the engagement.

Further procedures may be necessary to confirm or dispel a suspicion that there is material non-compliance with the compliance requirements.



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## 6. Reporting

In forming the conclusion, the assurance practitioner evaluates the sufficiency and appropriateness of evidence obtained in the context of the engagement. This includes, evaluating the materiality of any matter(s) of non-compliance identified and consideration of any implications on the conclusion.

In preparing the assurance report, the assurance practitioner includes the basic elements detailed in the standard, which includes an informative summary of the work performed as a basis for the assurance practitioner's conclusion. This does not preclude the assurance practitioner from preparing a long-form assurance report to meet any additional needs of the users, as agreed in the terms of the engagement or as required by law or regulation.

### Conclusion

ASAE 3100 establishes standards for compliance engagements conducted by assurance practitioners, to meet the current and emerging needs of key stakeholders as regulators and others place greater emphasis on assurance on specific reporting obligations under contracts, legislation or regulatory frameworks.

ASAE 3100 *Compliance Engagements* is available at [auasb.gov.au](https://auasb.gov.au).

All enquiries should be directed to [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au).