

Analysis of comments received from Office of the Auditor-General New Zealand in relation to the ED 2016-1, *Compliance Engagements*

This document sets out the NZAuASB staff analysis of the comments included in Office of the Auditor-General New Zealand’s (OAG) late submission in relation to the ED 2016-1, *Compliance Framework*.

The document is comprised of three parts:

- Part A: Overall response to the ED which includes OAG’s overall feedback on the ED 2016-1.
- Part B: The OAG’s comments in relation to the specific seven questions included in the ED 2016-1
- Part C: The OAG’s comments in relation to specific paragraphs of the ED 2016-1

	OAG Comment	The NZAuASB staff analysis
	Part A: Overall response to the ED	
1.	A comment that applies generally to the 3000 series of assurance standards, is that the length and technical complexity of the standards makes them very difficult for assurance practitioners to readily apply in practice. An effective standard should not be an intellectual challenge for the assurance practitioner. If this is the case then it is very likely the standard will be applied incorrectly, or not applied at all.	<p>Comment noted. The following matters need to be considered in relation to this comment:</p> <ul style="list-style-type: none"> • The SAE/ASAE 3100 is developed in accordance with ISAE (NZ) 3000 (Revised) which specifies the framework for an assurance engagement. The IAASB developed and issued ISAE 3000 (Revised) after considerable consultation with its constituents on a global scale and following an appropriate due process. There is no indication that the IAASB is under pressure from its constituents to significantly modify ISAE 3000 in the near future, and ISAE 3000 continues to be the standard that underpins assurance engagements other than an audit or a review of historical financial information. • The extant SAE 3100 is also based on the ISAE (NZ) 3000 (Revised) and the assurance practitioners have not reported undue difficulty in applying the extant standard in practice. • Assurance practitioners from both private and public backgrounds have been involved in the project advisory group in the development of the proposed ASAE/SAE 3100 standard. The group met eight times to consider the draft standard and provided the AUASB/NZAuASB with their feedback. The group supported the issued ED. • The International Standards of Supreme Audit Institutions (ISSAI) issued by the International Organisation of Supreme Audit Institutions

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<p>2.</p>	<p>A flaw in the 3000 series of standards is that they assume the components of an attest audit or review of historical financial information are readily transferable to other forms of assurance engagement.</p> <p>A good example of the assumption that the components of an attest audit can be readily applied to a compliance engagement is in the application of materiality¹ in the Exposure Draft. Whilst the concept of materiality is relatively simple to comprehend in an audit or review of historical financial information, it is much more difficult to apply (or may not even apply) to a compliance engagement. Typically a compliance engagement is asking for independent assurance on compliance; and compliance is something that either occurs or doesn't occur. Therefore, by asking the assurance practitioner to apply the concept of materiality to observed instances of non-compliance and to conclude whether, taking everything into account, there is material compliance is problematic in several ways – as follows:</p> <ol style="list-style-type: none"> 1. This approach assumes the assurance practitioner can exercise judgement as to whether an instance (or a number of instances) of non-compliance is material or not. Therefore, the assurance practitioner is required to carry out a two-step process: <ol style="list-style-type: none"> a. To identify any instances of non-compliance; and b. To assess if the observed non-compliance is material. 2. In many engagements, the assurance practitioner is not asked to make a judgement on material compliance. As a consequence, the approach in the Exposure Draft could deprive the user of instances of non-compliance that they regard as important, when the 	<p>(INTOSAI), a worldwide affiliation of the external government audit community, which sets appropriate standards for public sector auditors adopted the fundamental principles of ISAE 3000 in developing its standards.</p> <p>Comment noted. As the respondent highlighted, handling materiality can be a challenge when performing an assurance engagement on non-financial information in general and specifically so in a compliance engagement.</p> <p>Notwithstanding the challenge, materiality is one of the fundamental concepts underpinning the assurance conceptual framework. ISAE (NZ) 3000 (Revised) defines reasonable and limited assurance engagements as engagements whereby the assurance practitioner reduces engagement risks to an acceptably low level (refer ISAE (NZ) 3000 para 12(a).i.a&b).</p> <p>Engagement risk is defined as “the risk that the assurance practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated” (ISAE (NZ) 3000 Para 12(f)). SAE 3100 includes reference to Para 44 of ISAE (NZ) 3000 and requires the assurance practitioner to consider materiality in:</p> <ol style="list-style-type: none"> 1. Planning the audit (to enable the assurance practitioner to identify and assess the risks of material misstatement) 2. Evaluating the evidence obtained and the effects of identified instances of non-compliance and reporting the results of the assurance engagement. <p>Without considering materiality at the planning stages, the assurance practitioner will not have a basis for the risk assessment which provides a</p>
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¹There is a requirement to consider materiality in the planning process (in paragraph 31) and in in evaluating evidence (the accumulation of uncorrected misstatements in paragraph 49).

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<p>assurance practitioner has assessed the non-compliance to be immaterial.</p> <p>3. A consequence of 1 and 2 above, is that the assurance practitioner may issue an incorrect report and inadvertently assume litigation risk, although they complied with the requirements of the standard.</p> <p>This is but one example of the difficulty in applying the Exposure Draft in practice. Rather than try and fix the Exposure Draft, this observation suggests a fundamental review of the 3000 series of standards is warranted, starting with ISAE 3000. In our view, all assurance practitioners would appreciate effort from standards setters to make the 3000 series of standards workable from an application perspective. This means succinct standards based on principles that directly relate to the topic of the standard, with much less prescription. In our view, this is a job for the International Auditing and Assurance Standards Board.</p>	<p>basis for devoting appropriate attention to important areas of the engagement.</p> <p>ISSAI 400 <i>Fundamental Principles of Compliance Auditing</i> issued by the INTOSAI also requires the assurance practitioner to consider materiality throughout the audit process (see principle 47 of ISSAI 400). ISSAI 4100 <i>Compliance Audit Guidelines</i> (the guideline) provides application guidance for how a public-sector auditor can apply the concept of materiality in a compliance audit (Ref. Paras 68-78 of ISSAI 4100). ISSAI 4100 states that determination of materiality for planning purposes may be straight forward in certain situations (for example where a law or regulation or agreed-upon term establish an unconditional requirement for compliance) while in other cases such a determination may require comprehensive professional judgement on the part of the auditor.</p> <p>In relation to the application of materiality in evaluating of evidence and reporting, the respondent states that “in many engagements, the assurance practitioner is not asked to make a judgement on material compliance” and suggest the standard to require the assurance practitioner to report all identified instances of non-compliance.</p> <p>Although materiality consideration for reporting purposes is not the same as planning materiality considerations, there is a logical link between the two concepts (as both are defined as the potential impact of a matter on the users’ decisions). If there is a fundamental reason that an assurance practitioner is unable to assess materiality of identified instances of non-compliance, it is very likely that the same fundamental reason prevents the assurance practitioner to determine planning materiality.</p> <p>Furthermore, even if the respondent’s recommendation to report all instances of identified non-compliance is adopted, the assurance practitioner will still need to consider materiality of the identified instances of non-compliance. This is because the assurance practitioner is</p>
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		<p>required to express its conclusion in one of the four possible assurance conclusions (unmodified, qualified, adverse or disclaimed). Determining the appropriate conclusion requires the assurance practitioner to consider materiality of identified instances of non-compliance.</p> <p>ISSAI 400 also requires a public sector auditor to consider materiality in evaluating evidence and forming conclusion.</p> <p>Finally, para 64 of the updated SAE 3100 (Agenda item 4.5) states that: “In limited circumstances the assurance practitioner may be required by law or regulation and the terms of the engagement to report all instances of non-compliance with the compliance requirements to the regulator.”</p> <p>Therefore, the standard has made a provision for situations where an assurance practitioner need to report all instances of identified non-compliance. This is in addition to the fact that the standard does not prohibit the practitioner from reporting all instances of non-compliance</p> <p>Overall, materiality is a fundamental principle on which some other key assurance concepts (such as engagement risk, reasonable or limited assurance, form of the assurance conclusion etc.) are dependent on. Without this key concept, an assurance engagement in its existing form is unattainable.</p> <p><u>Our recommendation</u></p> <p>We recommend providing additional guidance about determining materiality in a compliance engagement. For example, the guideline issued by the ISSAI provides some additional guidance about applying materiality in a compliance engagement (Refer to section 6.7 on Materiality in the ISSAI 4100) which may address some of the concerns raised in these comments. The guidance on materiality could either be</p>
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		<p>included as application guidance in the proposed standard, or we could develop a more comprehensive application guidance document similar to ISSAI 4100, which includes a number of practical examples for a range of topics (for example, subject matter, subject matter information, criteria, risk factors, audit procedures, compliance deviations etc.) .</p> <p>Our recommendation is to add some application guidance in respect of materiality to the proposed standard, and for the Board to consider whether a more comprehensive application guidance document similar to ISSAI 4100 should be developed.</p> <p>We therefore recommend adding the following paragraph to the application guidance (the part in blue shows Para A25 as it currently standards and the part in green is the proposed addition to this paragraph):</p> <p>A25: The assurance practitioner considers materiality of the compliance requirements at the planning stage, reassesses materiality during the engagement based on the findings, and considers the materiality of any identified deficiencies in the compliance framework and/or non-compliance with compliance requirements. The determination of materiality for planning purposes may be straight forward. This might be the case in situations where a law or regulation, or agreed-upon terms establish an unconditional requirement for compliance, for example if the constitution prohibits overspending in relation to the approved budget. In other cases, the determination of materiality is normally a matter for professional judgement.</p>
<p>Part B: The respondent’s comments in relation to the specific questions included in the ED 2016-1</p>		
<p><i>Question 1 from the ED: Have applicable laws and regulations been appropriately addressed in the proposed standard?</i></p>		
<p>3.</p>	<p>This is a difficult question to answer. If the question is “Does the proposed standard provide clear guidance on how auditors should</p>	<p>Please refer to the comment under Part A of this document.</p>

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	provide assurance on compliance with [requirements]?” we would say “No”. This is for the reasons stated in our covering letter.	
<i>Question 2 from the ED: Are there any references to relevant laws or regulations that have been omitted?</i>		
4.	We do not consider that the standard should be aiming to include a complete list of relevant laws and regulations, because these change on a daily basis. Rather the standard should set out the important principles underlying a compliance engagement, and equip the assurance practitioner with the essential tools to carry out a compliance engagement. Those underlying principles and essential tools should apply to all compliance engagements.	<p>Comment noted.</p> <p>Our recommendation No change to the ED is required.</p>
<i>Question 3 from the ED: 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?</i>		
5.	To the best of our knowledge, we are unaware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard.	<p>Comment noted.</p> <p>Our recommendation No change to the ED is required.</p>
<i>Question 4 from the ED: 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?</i>		
6.	The proposed standard should state that a compliance engagement can either take the form of a direct engagement or an attest engagement. However this only needs to be mentioned once, with reference back to ISAE (NZ) 3000. Constant reference to direct and attestation engagements detracts from the clarity of the proposed standard; paragraph 18 is a good example of what we would regard as unnecessary repetition.	<p>Comment noted. The ED refers to direct engagements in the following paragraphs:</p> <ul style="list-style-type: none"> • Para 7, relationship between SAE 3100 and ISAE (NZ) 3000. The reference seems appropriate. • Para 16: specifying who is responsible for measuring the underlying subject matter in an attestation VS direct engagement. The reference seems appropriate. • Para 17(e): definition of compliance outcome. The reference seems appropriate. • Para 17(h): definition of direct assurance engagement on compliance. The reference seems appropriate. • Para 17(s): definition of non-compliance. The reference seems appropriate.

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		<ul style="list-style-type: none"> • Para 18: this paragraph is similar to Para 7. However, the AUASB and PAG have considered this paragraph and decided to keep both of these paragraphs. • Para 23: assessing suitability of criteria. Given the differences between who applies the criteria in an attestation engagement VS a direct engagement the reference seems appropriate. • Para 25(c): terms of engagement: reference is appropriate. • Para 32.a (L&R): this para is now rephrased (in response to issues raised by other respondents) and the new para is as follows: “For a direct engagement on compliance, consider whether the identification or selection of criteria is appropriate, and/or select or identify further suitable criteria” (refer item 2 of the Agenda item 4.7). • Para 32.b (L&R): no distinction is made between direct and attestation, if 32.a is deleted, then this paragraph can be rephrased to say “for an assurance engagement on compliance” • Para 49: The para explains misstatement is only applicable to an attestation engagement on compliance. Reference is appropriate. • Para 56: Reference is appropriate. • Para 57: The phrase “For both attestation and direct engagements,” can potentially be deleted as no point of difference or emphasis is raised. • Para 60: reference is appropriate. • A4 and A50: references are appropriate. <p>Overall, there are not many references to attestation VS direction engagements in the standard and where there is such a reference it seems to be appropriate.</p> <p><u>Our recommendation</u></p> <p>No change to the ED is required</p>
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7.	<p><i>Question 5 of the ED: Are the procedures required for limited and reasonable assurance appropriate and adequately distinguished?</i></p> <p>There is a lack of clarity in parts of the proposed standard about the required procedures and how they should be applied, for both limited and reasonable assurance engagements. The lack of clarity is compounded because there is a degree of internal inconsistency within the proposed standard around the required procedures and how they should be applied; particularly between the requirements and the Appendices.</p> <p>Our observations are set out in Appendix 2 to this letter.</p>	<p>These internal inconsistencies are also identified by other respondents and are now corrected. The SAE 3100 presented to the Board is updated from these matters. Refer items 5, 6, 12, 13, 19, 20 of Agenda item 4.3. SAE 3100 is now appropriately modified and the raised concerns are addressed.</p>
8.	<p><i>Question 6 of the ED: 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?</i></p> <p>In our view, for the reasons referred to in the covering letter, the proposed standard (as it exists in its current form) presents a number risks, as follows:</p> <ul style="list-style-type: none"> • Its length and complexity may result in the standard not being correctly applied, or not being applied at all; • Some of the requirements of the proposed standard may not apply to certain compliance engagements (an example of this is the materiality requirements referred to in the covering letter). If the requirements are applied by the assurance practitioner without them exercising very careful judgement (which may require the assurance practitioner to check with the party seeking the assurance as part of engagement planning), there is a risk that users of the report may not be informed of instances of non-compliance that they consider to be important (because the assurance practitioner deemed them to be immaterial). As a result the proposed standard may not serve the needs of users and also present a litigation threat to the assurance practitioner. 	<p>Comment noted. It should be noted that other respondents have not raised concerns in relation to length or complexity of the standard. As explained under Part A of this Agenda item, the standard is developed with significant feedback received from assurance practitioners including public sector assurance practitioners. The proposed SAE 3100 is consistent with ISAE (NZ) 3000 and is not fundamentally different to the extant SAE 3100. However, a guidance document similar to ISSAI 4100 (discussed in Part A of this Agenda item) may assist the assurance practitioner to better apply this standard in practice. Determining if any guidance is needed may require additional research.</p> <p>The issues relating to materiality are discussed in Part A of this Agenda item.</p> <p><u>Our recommendation</u></p> <p>No change to the ED is required</p>

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	<p>These are significant failings in the proposed standard, which could result in significant costs to assurance practitioners and the business community. Furthermore this could cast doubt on the standards setting process itself.</p>	
<p>Part C: Additional matters identified by the respondent</p>		
<p>9.</p>	<p>Paragraphs 39, 42L, 43L, A39 and A40. Appendix 5, Example Engagement Letter 1.</p> <p>The expression of procedures in “Example 1: Engagement Letter for a Limited Assurance Engagement” appears to be inconsistent with the requirements of the proposed standard.</p> <p>In our view, there is an inconsistency in the third paragraph under the heading Responsibilities of the assurance practitioner with the requirements. The first sentence of that paragraph states:</p> <p><i>“The procedures selected depend on the assurance practitioner’s professional judgement, including identifying areas where the risk of material deficiencies in the compliance framework or [emphasis added] misstatements in ABC’s Statement are likely to arise.”</i></p> <p>We would observe that there are further references to “the compliance framework” in that section of the example engagement letter.</p> <p>The reference to “the compliance framework” is inconsistent with the second sentence of the second paragraph in the letter that is limited to the provision of a conclusion on ABC’s Statement. This sentence states:</p> <p><i>“Our assurance engagement will be conducted with the objective of reaching a conclusion on [whether?] [ABC’s Statement] of compliance with the [compliance requirements] is, in all material respects, fairly stated ...”.</i></p> <p>The scope of the engagement is initially limited to providing assurance over ABC’s Statement, whereas the engagement scope appears to</p>	<p>Comment noted. A similar point is raised by CPA Australia (see item 4 of Agenda item 4.4). As explained by the AUASB Technical Advisory Group, an assurance practitioner is required to consider the compliance framework as part of obtaining an understanding of the entity. This understanding is required for the assurance practitioner to perform their risk assessment as they would under any assurance engagement.</p> <p>ISSAI 400 includes a similar requirement for a public-sector auditor conducting a compliance audit to obtain appropriate understanding of the entity, internal controls (over compliance) and the control environment. (see Para 53 of ISSAI 400). The ISSAI 400 states that “in order to understand the audit entity or the subject matter, the auditor also needs to understand the system of internal controls”.</p> <p>A material deficiency in the compliance framework is defined in SAE 3100 as:</p> <p>“in relation to the compliance framework and controls – instance(s) of deficiency that are significant in the context of the entity’s control environment and that may raise the compliance engagement risk sufficiently to affect the assurance practitioner’s conclusion.” (refer Para. 17(q).ii)</p> <p>The above definition directly links a deficiency in compliance framework with the practitioner’s conclusion. There seem to be a missing link in this definition: a material deficiency in the compliance framework is one which increases the risk of a material instance of non-compliance not</p>

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<p>10.</p>	<p>have been widened to include “the compliance framework” later on in the letter. Furthermore, forming a conclusion on the compliance framework has not been contemplated in paragraphs 42L and 43L, which are silent on this matter.</p> <p>There is a requirement (in paragraph 39) for the assurance practitioner to “design and perform additional procedures ... which are responsive to the risks of a material deficiency in the compliance framework ...”. This requirement may not be relevant to a particular compliance engagement where there is no relationship between the Statement and “the compliance framework”.</p> <p>Paragraph 39 refers to paragraph A40. Paragraph A40 makes no reference to “the compliance framework”, although paragraph A39 does.</p> <p>In summary, there is a lack of connectivity between:</p> <ul style="list-style-type: none"> • the objective of an assurance engagement (which will determined by the specifics of each engagement); • the requirements (specifically by the requirement in paragraph 39 to carry out procedures to identify a material deficiency in “the compliance framework”); and • the example engagement letter. <p>These are matters that require further attention before the proposed standard is finalised.</p>	<p>being identified, prevented, mitigated etc. Where the practitioner is unable to appropriately and adequately address the risks of material non-compliance due to material deficiencies in the compliance framework (e.g. because the deficiency may result in instances of non-compliance being unidentifiable) the assurance practitioner will need to modify his conclusion accordingly.</p> <p>In our view, providing this link in the definition clarifies how deficiencies in the compliance framework relate to the objective of an assurance engagement on compliance (which is to ensure that the entity has complied with the compliance requirements in all material respects).</p> <p>By definition, a material deficiency in the compliance framework is one that affects achieving compliance with the compliance requirements. If there is no relationship between the compliance framework and whether compliance is achieved there will be no material deficiencies in the compliance framework. By definition, there must be a relationship between the compliance framework and achieving compliance.</p> <p>Para A40 provides application guidance on how the nature, scope and timing of procedures may differ between a reasonable assurance engagement and a limited assurance engagement. There does not seem to be a need for this paragraph to discuss material deficiency in compliance framework, which is discussed in para.39.</p> <p>Notwithstanding the issues raised by the constituents, the reference to material deficiencies in the compliance framework seems appropriate and not inconsistent.</p>
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<p>11.</p>	<p>Similar issues are present in the expression of procedures, and the references to “the compliance framework” in “Example 3: Engagement Letter for a Reasonable Assurance Engagement”, as those discussed in respect of Example 1 above.</p> <p>Engagement letters 2 and 3 include a statement that the assurance practitioner will “<i>perform procedures to obtain evidence about compliance activities and controls implemented to meet the [compliance requirements]</i>”.</p> <p>We would observe that paragraphs 42R, 43R and 44R do not specifically require the assurance practitioner to perform “<i>procedures to obtain evidence about compliance activities and controls implemented to meet the [compliance requirements]</i>”.</p> <p>Assurance practitioners will use the example engagement letters on the understanding that the letters reflect the requirements of the proposed standard. As a consequence, it is possible that the actual engagement letters will not accurately reflect the procedures that should be carried out to allow an appropriate conclusion to be formed.</p> <p>Another matter to consider is that an assurance practitioner, in some instances, may not even need to understand the compliance framework in order to complete the compliance engagement.</p> <p>Engagement letters 2 and 3 include a statement that the assurance practitioner will “<i>perform procedures to obtain evidence about compliance activities and controls implemented to meet the [compliance requirements]</i>”.</p> <p>We would observe that such procedures are not always necessary in order for the assurance practitioner to form their conclusion.</p> <p>Similarly, reasonable assurance reports 2 and 3 state that “<i>An assurance engagement involves performing procedures to obtain evidence about controls implemented ...</i>”. We would observe that</p>	<p>The SAE 3100 defines a compliance activity as: “Compliance activity (subject matter or underlying subject matter)—The activity that is undertaken to meet the compliance requirement(s).”</p> <p>Therefore, there is a direct link between compliance activity and achievement of the compliance. As such it can be expected that in most common forms of assurance engagements the assurance practitioner will need to consider the compliance activities (as in many instances these activities form part of the evidence for compliance with the compliance requirement). The question raised seems to be that there may be situations where a practitioner can achieve appropriate and sufficient evidence in relation to compliance with a compliance requirement without considering the compliance activities. For example, to ensure that a building is constructed in accordance with a specific building code, the assurance practitioner may be able to obtain evidence from undertaking procedures that directly test the building against the relevant requirements (e.g. if walls are insulated, windows are of the specified size and quality etc) without the need to go through the activities undertaken by the builder in complying with the code. However even in this example, the building is part of the compliance activity, so even if the assurance practitioner procedures are limited to procedures directly performed over the building, he is still obtaining evidence about the compliance activity.</p>
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	<p>such procedures are not always necessary in order for the assurance practitioner to form their conclusion.</p>	<p>As such the standard reference to obtaining evidence in relation to compliance activity seems appropriate.</p> <p><u>Our recommendations:</u></p> <p>We recommend that:</p> <ol style="list-style-type: none"> 1) the definition of ‘material deficiency in compliance framework’ is expanded. We propose the following definition ((the part in blue shows Para 17(q).ii as it currently stands and the part in green is the proposed addition to this paragraph): <p>“in relation to the compliance framework and controls – instance(s) of deficiency that are significant in the context of the entity’s control environment in the compliance framework (including deficiencies in internal controls) that increases the risk of a material instance of non-compliance with the compliance requirements. If the assurance practitioner is unable to reduce such risk (e.g. by undertaking additional procedures which reduce the risk of non-compliance to an acceptably low level) that it may raise the compliance engagement risk sufficiently to affect the assurance practitioner’s conclusion.” (refer Para. 17(q).ii)</p> <p>We also recommend that the last parts of the second paragraph under the “responsibilities of the assurance practitioner” in example engagement letters 1 to 3 included in Appendix 5 are modified as follows (the part in blue shows paragraph as it currently stands and the part in green is the proposed modifications to this paragraph):</p> <p>..... We will also perform additional procedures if we become aware of matters that cause us to believe there are deficiencies in the compliance framework that may result in a material non-compliance with compliance requirements or misstatements in ABC’s Statement.</p>
<p>12.</p>	<p><u>Paragraphs 32L and 32R</u></p>	<p>Internal controls are included as a component of compliance framework but the SAE 3100 does not separately define internal controls over compliance.</p>

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	<p>These paragraphs describe assurance practitioners’ responsibilities to understand the compliance framework and the compliance requirements.</p> <p>The compliance framework is defined in paragraph 17(d) and includes governance structures, programs, processes, systems, controls [emphasis added] and procedures.</p> <p>Assurance practitioners are required to obtain an understanding of the entity’s compliance framework for both limited assurance and reasonable assurance engagements (paragraphs 32L and 32R).</p> <p>Paragraph 32R(c) specifically requires the assurance practitioner to:</p> <ul style="list-style-type: none"> • Obtain an understanding of the relevant internal controls over the compliance activity to meet the compliance requirements; • Evaluate the design of those controls; and • Determine whether they have been implemented. <p>The requirements of the first bullet point are effectively required to be performed for both limited and reasonable assurance engagements under paragraphs 32L and 32R. The additional requirements for reasonable assurance engagements are specified in the latter two bullet points.</p> <p>In our view, the components of the compliance framework may not be well understood by assurance practitioners; particularly when paragraph 32R(c) requires the assurance practitioner to obtain an understanding of the relevant internal controls (which is something that assurance practitioners should have already done). The way in which the requirements are currently explained in the proposed standard (and paragraph 32R(c) in particular) could (incorrectly) suggest that the relevant internal controls are not part of the compliance framework.</p>	<p>As there are instances that SAE 3100 specifically refers to internal controls over compliance (e.g. Para 32R.c. as referred to by the OAG) are referred to in the standard, including a separate definition may be helpful.</p> <p>The fact that the assurance practitioner needs to consider the compliance framework (which effectively means its components including controls) does not mean that there is not a need to specifically focus on one of these elements. Internal controls over compliance are likely to have a more direct relationship with achieving the compliance and therefore the assurance practitioner may need to specifically consider them. Therefore, in our opinion the specific requirement in Para. 32 R.c. is appropriate.</p> <p>However including a separate definition of internal controls (emphasising that internal controls are a component of the compliance framework) may help to clarify SAE 3100.</p> <p><u>Our recommendations:</u></p> <p>We recommend that the following definition of internal controls is included in SAE 3100 (the definition is adopted from SAE 3150):</p> <p>Control or internal control—The process designed, implemented and maintained by those charged with governance, management and other personnel to mitigate risks which may prevent the achievement of compliance with the compliance requirements. Internal controls are a key component of the entity’s compliance framework.</p>
<p>13.</p>	<p><u>Appendix 6, Example Assurance Report 1 (a limited assurance engagement).</u></p> <p>On the top of page 59 of the proposed standard the first bullet point states:</p>	<p>This comment is raised by other respondents and is the SAE 3100 is corrected to modify this matter.</p> <p><u>Our recommendation</u></p>

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	<ul style="list-style-type: none"> • <i>“In performing the procedures listed above we ... obtained an understanding of ... compliance framework and internal control environment.”</i> <p>From the definition of the compliance framework in paragraph 17(c) the internal control environment is part of the compliance framework, and not separate from it.</p> <p>On the top of page 59 of the proposed standard the second bullet point states:</p> <ul style="list-style-type: none"> • <i>“In performing the procedures listed above we, through enquiries, inspection and walk throughs ...”</i> <p>Neither paragraphs 32L or 32R require the assurance practitioner to carry out “walk throughs”, although such procedures are much more likely to be performed for a reasonable assurance engagement than for a limited assurance engagement. The reference to walk throughs in the example assurance report 1 for a limited assurance engagement seems inconsistent with the procedures that would normally be carried out for an engagement of this nature.</p> <p>Another observation is that a lay reader of the assurance report may not understand what “walk throughs” actually mean.</p>	<p>No further changes beyond those incorporated to the updated SAE 3100 is required.</p>
14.	<p>The first sentence of paragraph 27 doesn’t make sense. This might need some attention.</p>	<p>The paragraph reads as follows.</p> <p>If law or regulation prescribe the compliance requirements for evaluation or the form and content of the assurance report, the assurance practitioner evaluates the compliance requirements and form and content of the assurance report. If the compliance requirements are unsuitable or if intended users might misunderstand the assurance report, the assurance practitioner shall: (Ref: Para. A16, A53)</p> <ul style="list-style-type: none"> (a) Not accept the engagement unless additional explanation in the assurance report mitigates these circumstances; or (b) Not include any reference within the assurance report to the engagement having been conducted in accordance with ASAE 3000 or this ASAE, if required to accept the engagement by law or regulation.

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		<p>The paragraph seems to be in order.</p> <p><u>Our recommendation</u></p> <p>No change to the ED is required</p>
<p>15.</p>	<p><u>Para 57 (o)</u> The rationale for including a statement restricting the use of the assurance report seems unusual in this paragraph. The accompanying application guidance in paragraph A58 provides proper reasoning why the assurance practitioner should consider including a statement restricting the use of the assurance report.</p>	<p>The paragraph says: “When the criteria used to evaluate the compliance requirements are available only to specific intended users, or are relevant only for a specific purpose, a statement restricting the use of the assurance report to those intended users or that purpose; (Ref: Para. A58)”</p> <p><u>Our recommendation</u></p> <p>No change to the ED is required</p>
<p>16.</p>	<p><u>Appendix 7 on page 65</u> The reference to Appendix 5 should be to Appendix 6</p>	<p>This sentence is now deleted out of SAE 3100 because issues raised by other constituents.</p> <p><u>Our recommendation</u></p> <p>No further changes beyond those incorporated to the updated SAE 3100 is required.</p>