

New Zealand Institute of Chartered Accountants<sup>1</sup>

## INVITATION TO COMMENT

*Exposure Draft of Standard on Assurance Engagements*

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### ED/SAE 3100 *Compliance Engagements*

Issued by the Professional Standards Board (PSB) of the  
New Zealand Institute of Chartered Accountants

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<sup>1</sup> The New Zealand Institute of Chartered Accountants is the operating name of the Institute of Chartered Accountants of New Zealand, a body established under the Institute of Chartered Accountants of New Zealand Act 1996. All references to the New Zealand Institute of Chartered Accountants, or to the Institute, in this document mean the Institute of Chartered Accountants of New Zealand.

## ABOUT THE PROFESSIONAL STANDARDS BOARD

The Professional Standards Board (PSB) is a permanent body of the Institute, with responsibility for developing ethical and professional standards that apply to members of the Institute. The PSB's objective as a standard-setting body is to uphold the public interest through setting high quality ethical and professional standards applicable to NZICA members.

The PSB follows a rigorous and well-established due process for developing standards that are intended to apply to Institute members. Underlying the standard-setting process is thorough research of 'best practice' relating to the areas of professional services or practice addressed by NZICA Standards, with reference to the New Zealand and international environments and the also the applicable legal framework.

Further information about the Institute and the role of PSB can be viewed on the Institute's website, [www.nzica.com](http://www.nzica.com).

## INVITATION TO COMMENT

The PSB is developing a Standard on Assurance Engagements *Compliance Engagements*, which is intended to apply to members who provide audit and assurance services.

The PSB seeks comments on the proposed Standard set out in this Exposure Draft from all parties interested in the development of standards for audit and assurance engagements performed in New Zealand, and particularly from NZICA members.

Submissions and comments received may be made publicly available unless a respondent requests otherwise.

Submissions and comments should be addressed in writing to:

The Director – Professional Standards  
New Zealand Institute of Chartered Accountants  
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WELLINGTON 6142  
Fax: (04) 472 6282  
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**Comments are requested by 20 March 2009.**

## DISCUSSION PAPER ED/SAE 3100 COMPLIANCE ENGAGEMENTS

The Professional Standards Board (PSB) has issued for comment the Exposure Draft ED/SAE 3100 *Compliance Engagements* (ED/SAE 3100).

This Discussion Paper provides background to the issuance of ED/SAE 3100 and an overview of the content of the proposed Assurance Engagement Standard in Sections 2 and 3 below. It highlights key issues for which the PSB requests feedback and comment in Section 4.

### 1. Introduction

The New Zealand Institute of Chartered Accountants ('the Institute') is required, under the Institute of Chartered Accountants of New Zealand Act 1996, to among other things:

- promote quality, expertise and integrity; and
- control and regulate

the profession of accountancy by its members in New Zealand<sup>2</sup>.

As part of performing these functions the Institute requires its members to adhere to the *Code of Ethics* ('the Code') and the professional standards the Institute establishes relating to various types of professional services that its members provide to the public. The Fundamental Principles that apply to any engagement undertaken by a member are contained in the Code of Ethics.

Members' compliance with the Code and the Institute's Standards is mandatory. Rule 11 of the Code requires members' compliance with the Institute's Professional Standards and Engagement Standards, and any other Standards the Council of the Institute issues from time to time and declares to be mandatory under Rule 11.

The *Explanatory Foreword to Engagement Standards* describes the framework of the Institute's Professional Standards, Engagement Standards, Practice Statements and Guidelines that establish standards and provide guidance concerning the acceptance and performance of professional engagements by members.

ED/SAE 3100 establishes standards and provides guidance for members when performing assurance engagements the purpose of which is to provide reports to express an assurance opinion or conclusion that meets the needs of contracting parties, or regulatory agencies, regarding the assurance client's compliance with specified requirements. For example, reports to a regulator concerning the client's compliance with obligations or requirements contained in contracts, such as trust deeds or grants, legislation or regulatory frameworks.

The Schedule **attached** contains a diagrammatic presentation of the elements of assurance engagements undertaken by members for the purpose of providing assurance about an entity's compliance with either externally –imposed requirements or internally-imposed requirements.

### 2. Background

In 2007 NZICA issued the *Framework for Assurance Engagements* ('the Framework'), adopting the *International Framework for Assurance Engagements* issued by the International Auditing and Assurance Standards Board.

The Framework defines and describes the elements and objectives of an assurance engagement. It provides a frame of reference for:

- (i) members when performing assurance engagements;

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<sup>2</sup> Section 5, Institute of Chartered Accountants of New Zealand Act 1996

- (ii) others involved with assurance engagement, including the intended users of an assurance report and the responsible party; and
- (iii) the PSB in its development of Assurance Standards.

ED/SAE 3100 has been developed applying the Framework to the particular context of assurance engagements to provide reports that convey assurance on matters of compliance. ED/SAE 3100 does not include reporting on compliance of a client's financial statements, or a particular financial statement or element of a financial statement, with an applicable financial reporting framework<sup>3</sup>.

NZICA is also issuing ISAE (NZ) 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (Council approval of this Standard is expected to be completed in December 2008). This proposed Assurance Engagement Standard has general application to performance of assurance engagements on subject matter or subject matter information other than historical financial information covered by the ISAs (NZ).

The general Standards contained in ISAE (NZ) 3000 are supplemented by Standards on Assurance Engagements (SAEs), or International Standards on Assurance Engagements (New Zealand) (ISAEs (NZ)), issued to address particular aspects of assurance engagements to report on specific subject matter or subject matter information<sup>4</sup>. ED/SAE 3100 is intended to address particular aspects of assurance engagements to report on a client's compliance with requirements established under contracts, legislation or regulation.

### **3. Overview of the Proposed Standards and Guidance Contained in ED/SAE 3100**

ED/SAE 3100 will apply, together with the generic requirements for assurance engagements contained in ISAE (NZ) 3000, when members are engaged to assurance reports concerning aspects of a client's compliance with conditions or requirements established in contracts the client has with third parties, or by applicable legislation or regulation, including specific reporting obligations the client has .

Examples are:

- reporting under provisions of applicable legislation or regulations, whether an entity's information returns or disclosure statements submitted to a regulatory body/agency:
  - (i) properly provide the required information in the returns, as specified in the underlying legislation or regulations<sup>5</sup>, and/or
  - (ii) providing assurance that information contained in such returns has been prepared in accordance with a specified standard or framework, or specified guidelines.
- reporting on an entity's compliance with requirements contained in loan agreements, agreements for provision of grants, or trust deeds. For example the auditor of an entity may be engaged to report on the entity's compliance with financial covenants contained in a trust deed, or to provide assurance in relation to the entity's reported compliance with such agreements/covenants.
- Reporting on an entity's compliance with policies, codes or Standards that the entity or those charged with governance of the entity have adopted voluntarily. For example compliance by the

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<sup>3</sup> The provision of assurance reports on the compliance of a client's financial statements with an applicable financial reporting framework, or the compliance of a financial statement or element of a financial statement with an applicable financial reporting framework, is addressed by the International Standards on Auditing (New Zealand).

<sup>4</sup> For example, the expected development of a New Zealand equivalent to proposed ISAE 3402 "Assurance Reports on Controls at a Third Party Service Organisation" which the IAASB is expected to issue during 2009.

<sup>5</sup> For example, returns of donations and election expenses that are required to be provided to the Electoral Commission by political parties and others under the Electoral Finance Act 2007. Other examples exist in various other legislation and regulations that apply in different commercial and business settings in New Zealand.

entity with specified standards or criteria for an environmental management plan, or a risk management programme.

ED/SAE 3100 addresses the following matters:

- (i) Purposed and Scope
- (ii) Objectives
- (iii) Definitions
- (iv) Requirements relating to:
  - compliance with ISAE (NZ) 3000;
  - ethical requirements;
  - quality control;
  - engagement acceptance and continuance;
  - agreement of engagement terms;
  - planning and performing the engagement;
  - materiality and engagement risk;
  - obtaining evidence;
  - representations by the responsible party;
  - evaluation and communication of compliance breaches;
  - considering subsequent events;
  - documentation;
  - preparing the report;
  - content of the report;
  - other reporting responsibilities
- (v) Application and Other Explanatory Material

#### **4. KEY DISCUSSION ISSUES**

The following section identifies the key issues on which the PSB seeks feedback. The PSB has considered these issues and recognises the need to consult on these with the Institute's key stakeholders, including its members, and any other interested parties. The PSB is seeking comment both from those who support the standards and guidance as set out in the proposed Standard contained in the Exposure Draft, and those who do not. The PSB is particularly interested in receiving comments from the Institute's members who undertake compliance engagements.

The PSB seeks feedback on the following questions:

1. Do you consider that the purpose and scope of ED/SAE 3100 is appropriate?
2. Do you agree with the Objective of a member performing a compliance engagement as set out in paragraph 12 of ED/SAE 3100?
3. Do you agree with the definitions of terms contained in ED/SAE 3100 (paragraph 13)?

4. Do you agree with the Requirements contained in the proposed Standard (paragraphs 14 - 68)?
- 4.1 Do you agree with the approach followed in ED/SAE 3100 of requiring members to comply with the generic requirements for assurance engagements contained in ISAE (NZ) 3000 (paragraph 14)?
5. Do you agree with the Application and Other Explanatory Material contained in the proposed Standard (paragraphs A1 – A67)?
6. Does ED/SAE 3100 have implications for performance of assurance engagements in public sector settings that you believe the PSB should be aware of, or consider?
7. Does ED/SAE 3100 have implications for performance of assurance engagements for small and medium entities that you believe the PSB should be aware of, or consider?

#### **REQUEST FOR COMMENT**

The PSB seeks your comments and feedback on the above questions concerning ED/SAE 3100. Submissions are requested by **20 March 2009**.

The PSB regards both critical and supporting comments as essential to a balanced review and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

Comments are more helpful if they are supported by specific reasoning and should preferably be submitted in writing, and where possible in electronic form.

**Schedule: Schematic representation of Elements of a Compliance (Assurance) Engagement**

