



**STANDARD ON ASSURANCE ENGAGEMENTS 3100**

**Compliance Engagements (SAE 3100)**

**Issued August 2011**

**Effective for assurance engagements beginning on or after 1 November, 2011.**

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## STANDARD ON ASSURANCE ENGAGEMENTS 3100

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**SAE 3100, “Compliance Engagements” should be read in conjunction with ISAE (NZ) 3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information.”**

## Introduction

### Purpose

1. This Standard on Assurance Engagements (SAE) establishes mandatory requirements and provides explanatory guidance for assurance providers undertaking assurance engagements to report on an entity's compliance with requirements established in legislation or regulations, agreements, contracts or similar, or which are internally-imposed by the entity.

### Scope

2. Compliance is an outcome of an entity meeting its various obligations. An entity may have obligations to comply with requirements that are either:
  - (a) externally-imposed, for example requirements established in laws, regulations, agreements, contracts or similar; or
  - (b) internally-imposed, for example requirements contained in standards, codes or policies adopted by the entity.
3. An assurance provider may be engaged to provide assurance on the entity's compliance with such requirements as measured by suitable criteria.
4. An assurance engagement may be either an "assertion-based engagement" or a "direct reporting engagement".
  - (a) In an *assertion-based engagement* the responsible party asserts compliance with requirements. The assurance provider evaluates the responsible party's assertion(s) and expresses a conclusion in the form of an opinion on those assertions to enhance confidence in the assertion(s)<sup>1</sup>.
  - (b) In a *direct reporting engagement* the assurance provider directly evaluates compliance with requirements, and expresses a conclusion in the form of an opinion on the entity's compliance with those requirements to the intended users in a compliance report.

This SAE applies to compliance engagements taking either of these forms.

5. The compliance engagement may be either a "reasonable assurance engagement" or a "limited assurance engagement".
6. This SAE does not address those situations where an assurance provider who is appointed to audit an entity's financial statements is required to report under applicable legislation on other matters, in addition to expressing an opinion on the financial statements, without carrying out procedures additional to those carried out in the normal course of the audit of the financial statements. For example, when an auditor is required to:
  - (a) report certain matters if they come to the auditor's attention during the course of the audit of the financial statements, for example matters specified in legislation applicable to regulated entities that must be reported to a regulator or supervisor; or

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<sup>1</sup> The assurance provider may also word their opinion directly.

- (b) report on specific matters in addition to the report on the financial statements, such as the adequacy of the accounting books and records, where the relevant law or regulation requires or permits the auditor to report on these other responsibilities together with the auditor's report on the financial statements<sup>2</sup>.

### Effective Date

- 7. This SAE is effective for assurance engagements beginning on or after 1 November, 2011.

### Objectives (Ref: Para. A1)

- 8. The objectives of the assurance provider are to:
  - (a) obtain assurance about whether, in all material respects, an entity has complied with requirements contained in legislation, regulation, agreements, contracts or similar, or internally-imposed standards, codes or policies; and
  - (b) express clearly the assurance provider's conclusion on that compliance in the form of an opinion, in accordance with the assurance provider's findings.

### Definitions

- 9. For purposes of this SAE the following terms have the meanings attributed below:
  - (a) Applicable Requirements – the requirements established in laws, regulations, agreements, contracts, standards, codes or policies with which the entity is required to comply.
  - (b) Assurance Provider – a person or an organisation appointed or engaged to provide assurance services.
  - (c) Compliance – adherence by the entity to the applicable requirements as measured by suitable criteria.
  - (d) Compliance Breach - an instance of non-compliance with applicable requirements.
  - (e) Compliance Engagement - an assurance engagement in which an assurance provider expresses a conclusion in the form of an opinion after evaluating an entity's compliance with the applicable requirements.
  - (f) Compliance Engagement Risk - the risk that an assurance provider expresses an inappropriate opinion when the entity is materially non-compliant with the applicable requirements.
  - (g) Compliance System – the systems or programmes, including internal controls, established within an entity to provide reasonable assurance that the entity complies with applicable requirements.

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<sup>2</sup> ISA (NZ) 700, "Forming an Opinion and Reporting on Financial Statements", paragraphs 38-39, address other reporting responsibilities that an auditor may have that may form part of the auditor's report on an entity's financial statements.

- (h) Intended Users - the person, persons or class of persons for whom the assurance provider prepares the report for the compliance engagement. The responsible party can be one of the intended users, but cannot be the only one.
- (i) Limited Assurance Engagement - a compliance engagement where the assurance provider's objective is to reduce compliance engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than that for a reasonable assurance engagement, as the basis for a negative form of expression of the assurance provider's opinion. A review engagement is a limited assurance engagement. (Ref: Para. A2)
- (j) Material -
  - (i) in relation to potential (for risk assessment purposes) or detected (for evaluation purposes) compliance breaches: breaches that are significant, individually or in aggregate, in the context of the entity's compliance with applicable requirements, and that affect the assurance provider's opinion; and/or
  - (ii) in relation to an entity's compliance system; instance(s) of deficiency that are significant in the context of the entity's control environment as it affects achievement of the entity's compliance objectives, and that may increase the compliance engagement risk sufficiently to affect the assurance provider's opinion.
- (k) Professional Scepticism – an attitude that includes a questioning mind, being alert to conditions that may indicate possible compliance breaches. An attitude of professional scepticism means the assurance provider makes a critical assessment of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by the responsible party.
- (l) Reasonable Assurance Engagement - a compliance engagement where the assurance provider's objective is a reduction in compliance engagement risk to an acceptably low level in the circumstances of the engagement as the basis for a positive form of expression of the assurance provider's opinion. Reasonable assurance means a high, but not absolute, level of assurance. An audit engagement is a reasonable assurance engagement. (Ref: Para. A2)
- (m) Responsible Party - the person(s) within an entity who:
  - (i) in a direct reporting engagement, is responsible for the subject matter, (that is, ensuring compliance with applicable requirements).
  - (ii) in an assertion-based engagement, is responsible for the subject matter information (assertions with regard to the evaluation or measurement of the subject matter applying suitable criteria in accordance with applicable requirements) on which the assurance provider expresses an opinion in the report.

The responsible party may or may not be the party who engages the assurance provider (the engaging party).
- (n) Suitable Criteria - the benchmarks or bases that are *suitable* to be used to evaluate the entity's compliance with the applicable requirements. (Ref: Para. A3)

## Requirements

### Ethical Requirements

10. The assurance provider shall comply with the requirements of Professional and Ethical Standard 1<sup>3</sup> and Professional and Ethical Standard 2<sup>4</sup> to the extent relevant to the circumstances of the compliance engagement. The concept of independence is fundamental to the assurance provider's compliance with the principles of integrity and objectivity.

### ISAE (NZ) 3000

11. In addition to this SAE, the assurance provider shall comply with:
  - (a) the generic requirements for assurance engagements contained in ISAE (NZ) 3000; and
  - (b) other relevant SAEs or ISAEs (NZ).

### Quality Control

12. The assurance provider shall implement quality control procedures that apply to the individual engagement, in accordance with Professional and Ethical Standard 3<sup>5</sup>.

### Acceptance and Continuance of Compliance Engagements

13. The assurance provider shall accept (or continue where applicable) a compliance engagement in accordance with ISAE (NZ) 3000.

### *Appropriateness of the Subject Matter*

14. As required by ISAE (NZ) 3000, the assurance provider shall assess the appropriateness of the subject matter. (Ref: Para. A4 – A6)
15. If the assurance provider concludes that the subject matter is not appropriate, the assurance provider shall not accept (or continue where applicable) the engagement, unless required by law or regulation to do so.
16. If, after accepting the engagement, the assurance provider concludes that the subject matter is not appropriate, the assurance provider shall:
  - (a) consider withdrawing from the engagement, where possible; or
  - (b) if withdrawal from the engagement is not possible, express a qualified or adverse opinion, or a disclaimer of opinion, as appropriate, in the assurance provider's report.

### *Suitable Criteria*

17. The assurance provider shall assess the availability of suitable criteria to evaluate compliance with the applicable requirements. (Ref: Para. A7 – A9)

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<sup>3</sup> Professional and Ethical Standard 1, "Ethical Standards for Assurance Providers".

<sup>4</sup> Professional and Ethical Standard 2, "Independence in Assurance Engagements".

<sup>5</sup> Professional and Ethical Standard 3, "Quality Control".

18. If criteria are specifically developed by the assurance provider to evaluate or measure the subject matter, for example because no established suitable criteria exist, the assurance provider shall:
  - (a) if possible, obtain the acknowledgement of the parties to the compliance engagement (the responsible party and the intended users) that those criteria are suitable for the intended users' purposes; and
  - (b) if this acknowledgement cannot be obtained, consider how that will affect the assurance provider's attempt to assess the suitability of the criteria, and the information provided about the criteria in the assurance provider's report.
19. If the assurance provider concludes that the criteria are not suitable, the assurance provider shall not accept (or continue where applicable) the engagement, unless required by law or regulation to do so.
20. If, after accepting the engagement, the assurance provider concludes that the criteria are not suitable, the assurance provider shall:
  - (a) consider withdrawing from the engagement, where possible; or
  - (b) if withdrawal from the engagement is not possible, express a qualified or adverse opinion, or disclaim the opinion, as appropriate, in the assurance provider's report.

#### *Responsibilities of the Responsible Party*

21. The assurance provider shall accept (or continue where applicable) a compliance engagement only if, in agreeing the terms of the engagement, the responsible party acknowledges and understands its responsibility for:
  - (a) the entity's compliance with applicable requirements and any assertions made relating to compliance;
  - (b) designing, implementing and maintaining a compliance system to provide reasonable assurance that the entity complies with applicable requirements; and
  - (c) providing the assurance provider with:
    - (i) access to all information that is relevant to the assurance provider's evaluation of the entity's compliance with the applicable requirements and, where applicable, related assertions by the responsible party;
    - (ii) any additional information that the assurance provider may request for the purpose of the engagement; and
    - (iii) in so far as the responsible party is able, unrestricted access to any party from whom the assurance provider determines it necessary to obtain evidence.
22. If the responsible party imposes a limitation on the scope of the assurance provider's work in terms of the proposed compliance engagement such that the assurance provider believes the limitation will result in the assurance provider disclaiming an opinion, the assurance provider shall not accept such a limited engagement, unless required by law or regulation to do so.

**Agreeing the Terms of the Compliance Engagement** (Ref: Para. A10 – A14)

23. The assurance provider shall communicate or agree on the terms of the compliance engagement with the responsible party, and with the intended users where appropriate.
24. The agreed terms of engagement shall be recorded in writing or other suitable form by the assurance provider and be forwarded to the responsible party, and to the intended users where appropriate.
25. Where the compliance engagement is undertaken pursuant to legislation or regulation, the minimum compliance engagement terms shall be those contained in the legislation or regulation.
26. The assurance provider shall include the following matters in the agreed terms of engagement:
  - (a) the objective(s) and purpose of the compliance engagement, and specifically whether it is a limited assurance or a reasonable assurance engagement;
  - (b) the scope of the compliance engagement, and that the engagement will be completed in accordance with ISAE (NZ) 3000 and this SAE, and any other SAEs or ISAEs (NZ) applicable to the engagement;
  - (c) reference to the criteria to be used by the assurance provider to evaluate or measure compliance, where this is not obvious;
  - (d) the respective obligations and responsibilities of the assurance provider and the responsible party;
  - (e) the identified intended users of the assurance report; and
  - (f) the expected form of the report that will contain the assurance provider's conclusion in the form of an opinion, and any restrictions on distribution or use of the report.

*Changes to the Engagement*

27. If the responsible party requests a change in the scope of the engagement before the completion of the engagement, the assurance provider shall be satisfied that there is reasonable justification for the change. (Ref: Para. A15)
28. If such a change is made the assurance provider shall not disregard evidence that was obtained prior to the change.

**Planning and Performing the Compliance Engagement**

29. The assurance provider shall plan a compliance engagement so that it will be performed effectively. (Ref: Para. A16-A20)
30. The assurance provider shall plan and perform a compliance engagement with professional scepticism recognising that circumstances may exist that cause the entity not to be compliant with the applicable requirements.

*Understanding the Entity*

31. The assurance provider shall obtain an understanding of the entity and its compliance system, the applicable requirements, suitable criteria and other relevant

engagement circumstances, sufficient to identify and assess the risks of the entity's non-compliance with the applicable requirements, and sufficient to design and perform further evidence-gathering procedures. (Ref: Para. A21 – A22)

#### *Elements of an Entity's Compliance System*

32. When planning a compliance engagement the assurance provider shall obtain an understanding of the entity's compliance system and document the key elements of the system to facilitate the design of appropriate evidence-gathering procedures. (Ref: Para A23)

#### **Materiality and Compliance Engagement Risk**

33. The assurance provider shall consider materiality and compliance engagement risk when planning and performing a compliance engagement. (Ref: Para. A24 – A25)
34. The assurance provider shall reduce compliance engagement risk to a level that is acceptable in the circumstances of the compliance engagement. (Ref: Para. A26–A28)
35. If material deficiencies in the entity's compliance system come to the assurance provider's attention in the course of the engagement, the assurance provider shall assess the impact of those deficiencies on compliance engagement risk, and the implications for planning and performing the engagement. (Ref: Para. A29)
36. The assurance provider shall make the responsible party and intended users, where appropriate, aware as soon as practicable of material deficiencies in the entity's compliance system that have come to the assurance provider's attention.

#### **Obtaining Evidence**

37. The assurance provider shall obtain sufficient appropriate evidence on which to base the opinion, having regard to whether the compliance engagement is a reasonable assurance engagement or a limited assurance engagement. (Ref: Para. A30-A35)

#### *Using the Work of an Expert* (Ref: Para. A36 – A37)

38. When the work of experts is used in performance of a compliance engagement, the assurance provider shall:
  - (a) agree, in writing when appropriate, the following matters with the expert:
    - (i) the nature, scope and objectives of that expert's work;
    - (ii) the respective roles of the assurance provider and that expert; and
    - (iii) the nature, timing and extent of communication between the assurance provider and that expert, including the form of any report to be provided by that expert;
  - (b) adopt appropriate quality control procedures covering the work of any experts the assurance provider engages in the collection and evaluation of evidence to obtain sufficient appropriate evidence about the entity's compliance with applicable requirements; and
  - (c) be involved in and understand the work for which the expert is used, to an extent sufficient to:

- (i) obtain sufficient appropriate evidence that the expert's work is adequate for the purpose of the compliance engagement; and
- (ii) be able to accept responsibility for the opinion expressed in the assurance provider's report.

*Using the Work of Internal Auditors*

- 39. The assurance provider shall obtain an understanding of the aspects of the internal audit function that are relevant to the compliance engagement. (Ref: Para. A38 – A39)
- 40. The assurance provider shall determine:
  - (a) whether the work of the internal auditors is likely to be adequate for the purposes of the compliance engagement; and
  - (b) if so, the planned effect of the work of the internal auditors on the nature, timing or extent of the assurance providers' procedures.
- 41. In determining whether the work of the internal auditors is likely to be adequate for purposes of the compliance engagement, the assurance provider shall evaluate:
  - (a) the objectivity of the internal audit function;
  - (b) the technical competence of the internal auditors;
  - (c) whether the work of the internal auditors is likely to be carried out with due professional care; and
  - (d) whether there is likely to be effective communication between the internal auditors and the assurance provider.
- 42. In determining the planned effect of the work of the internal auditors on the nature, timing or extent of the assurance provider's procedures, the assurance provider shall consider:
  - (a) the nature and scope of specific work performed, or to be performed, by the internal auditors;
  - (b) the significance of that work to the assurance providers' conclusions; and
  - (c) the degree of subjectivity involved in the evaluation of the evidence gathered by the internal auditors in support of those conclusions.
- 43. When the assurance provider uses specific work of the internal audit function, the assurance provider shall perform procedures to evaluate the adequacy of that work.
- 44. To determine the adequacy of specific work performed by the internal auditors for the assurance provider's purposes, the assurance provider shall evaluate whether:
  - (a) the work was performed by internal auditors having adequate technical training and proficiency;
  - (b) the work was properly supervised, reviewed and documented;
  - (c) adequate evidence has been obtained to enable the internal auditors to draw reasonable conclusions;
  - (d) conclusions reached are appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed; and

- (e) any exceptions or unusual matters disclosed by the internal auditors are properly resolved.

**Representations by the Responsible Party** (Ref: Para. A40 – A42)

45. The assurance provider shall request written representations from the responsible party, based on the responsible party's knowledge and belief having made appropriate enquiries for them to be able to provide such representations. The representations should:
- (a) acknowledge responsibility for the entity's compliance with applicable requirements;
  - (b) state whether all information of which they are aware, that is relevant to the compliance engagement, has been made available to the assurance provider; and
  - (c) state that they have disclosed to the assurance provider any of the following of which they are aware:
    - (i) instances of non-compliance with applicable requirements; and
    - (ii) design deficiencies in the compliance system and instances where that system has not operated as described.
46. If the responsible party does not provide one or more of the written representations requested by the assurance provider, the assurance provider shall:
- (a) discuss the matter with the responsible party;
  - (b) reconsider the assurance provider's assessment of the integrity of the responsible party; and
  - (c) take appropriate actions, including determining the possible effect on the opinion expressed in the assurance provider's report.

**Evaluation and Communication of Compliance Breaches** (Ref: Para. A43 – A45)

47. If compliance breaches come to the assurance provider's attention during the engagement, the assurance provider shall evaluate:
- (a) whether the breaches are material, individually and in aggregate;
  - (b) their impact on the assurance provider's assessment of compliance engagement risk; and
  - (c) the implications for the assurance provider's planned approach for performing the engagement under paragraph 29.

*Communications with the Responsible Party*

48. The assurance provider shall make the responsible party aware as soon as practicable of material compliance breaches which have come to the assurance provider's attention. (Ref: Para. A46)

**Considering Subsequent Events** (Ref: Para. A47)

49. The assurance provider shall consider the effect of events occurring up to the date of the assurance provider's report on:

- (a) the entity's compliance with applicable requirements; and
- (b) the assurance provider's report.

### **Documentation**

- 50. The assurance provider shall prepare, on a timely basis, documentation that is sufficient and appropriate to provide:
  - (a) a basis for the assurance provider's opinion; and
  - (b) evidence that the compliance engagement was performed in accordance with ISAE (NZ) 3000, this SAE and other relevant SAEs or ISAEs (NZ). (Ref: Para. A48-A50)
- 51. The assurance provider shall document discussions of significant matters with the responsible party and others including when and with whom the discussions took place.
- 52. If the assurance provider has identified information that is inconsistent with the assurance provider's final conclusion regarding a significant matter, the assurance provider shall document how the assurance provider addressed the inconsistency in forming the final conclusion.
- 53. The assurance provider shall complete the assembly of the final engagement file on a timely basis after the date of the assurance provider's report.
- 54. After the assembly of the final engagement file has been completed, the assurance provider shall not delete or discard documentation before the end of its retention period.
- 55. If the assurance provider finds it necessary to modify existing engagement documentation or add new documentation after the assembly of the final engagement file has been completed, the assurance provider shall, regardless of the nature of the modifications or additions, document:
  - (a) when and by whom they were made, and (where applicable) reviewed; and
  - (b) the specific reasons for making them.

### **Preparing the Report** (Ref: Para. A51 – A53)

- 56. The assurance provider shall conclude whether sufficient appropriate evidence has been obtained to support the opinion expressed in the assurance provider's report.
- 57. The assurance provider's report shall be in writing and shall contain a clear expression of the assurance provider's opinion about the entity's compliance with the applicable requirements.

### **Content of the Report**

- 58. The assurance provider's report shall include the following basic elements, other than to the extent that these requirements are inconsistent with legislation or regulation:
  - (a) a title that clearly indicates the report is an independent assurance report;
  - (b) an addressee;

- (c) identification and description of the subject matter information (for an assertion-based engagement) and, where appropriate, the subject matter (for a direct reporting engagement) identified in the agreed engagement terms;
- (d) the period of compliance being reported on by the assurance provider;
- (e) identification of the criteria used;
- (f) where appropriate, a description of any significant, inherent limitation associated with the evaluation of compliance with the applicable requirements;
- (g) when the criteria used to evaluate the requirements are available only to specific intended users, or are relevant only for a specific purpose, a statement restricting the use of the assurance provider's report to those intended users and for that specific purpose;
- (h) when the report is intended for use by specified users only for the specified purpose of the compliance engagement, the assurance provider shall restrict use of the assurance report to the specified intended users for the purpose stated in the report;
- (i) a statement to identify the responsible party and to describe the respective responsibilities of the assurance provider and of the responsible party;
- (j) a statement that the engagement was performed in accordance with this Standard and any other relevant ISAEs (NZ) or SAEs, and the level of assurance obtained as the basis for expression of the opinion in the assurance provider's report;
- (k) a summary of the work performed;

**NZ (ka) a statement as to the existence of any relationship (other than assurance provider) which the assurance provider has with, or any interests which the assurance provider has in, the entity.**

- (l) the assurance provider's opinion expressed:
  - (i) in the positive form, for a reasonable assurance engagement; or
  - (ii) in the negative form, for a limited assurance engagement; and
  - (iii) where the assurance provider expresses an opinion that is other than unmodified, the assurance provider's report shall contain a clear description of all the reasons for any modification of the assurance provider's opinion;
- (m) the date of the assurance provider's report; and
- (n) the name of the firm or the assurance provider, and its specific location (ordinarily the city where the assurance provider maintains the office that has responsibility for the engagement). (Ref: Para. A54-A55)

*Modifications to the Compliance Report* (Ref: Para. A56)

59. The assurance provider shall not express an unmodified opinion when the following circumstances exist and, in the assurance provider's judgement, the effect of the matter is that one or more material compliance breaches may exist:

- (a) there is a limitation on the scope of the assurance provider's work. That is, circumstances prevent, or the responsible party or engaging party imposes a restriction that prevents, the assurance provider from obtaining evidence required to reduce compliance engagement risk to the appropriate level. The assurance provider shall express a qualified opinion or disclaim the opinion, depending on how material or pervasive the limitation is;
- (b) in those cases where:
  - (i) the assurance provider's opinion is worded in terms of the responsible party's assertion, and that assertion is not fairly stated, in all material respects; or
  - (ii) the assurance provider's opinion is worded directly in terms of the applicable requirements and the criteria, and the assurance provider concludes that the entity is not compliant with the applicable requirements in a material respect<sup>6</sup>;

the assurance provider shall express a qualified or adverse opinion. (Ref: Para. A57)

60. In accordance with paragraphs 16 and 20, where it is discovered after the engagement has been accepted, that there are no suitable criteria, or the identified subject matter is not appropriate for a compliance engagement the assurance provider shall express:
- (a) a qualified or adverse opinion where the lack of criteria or inappropriate subject matter is likely to mislead the intended users; or
  - (b) a qualified or a disclaimer of opinion, in other cases.
61. The assurance provider shall express a qualified opinion where the assurance provider's assessment of the effect of the entity's lack of compliance with the applicable requirements is not so material or pervasive as to require an adverse opinion, or a disclaimer of opinion. The qualified opinion is expressed as being "except for", or otherwise discloses the effects of the entity's lack of compliance with the applicable requirements.
62. Where the assurance provider identifies a matter that gives rise to a qualified or adverse opinion, or a disclaimer of opinion under paragraphs 59 and 61 of this SAE, the assurance provider shall consider any obligations under the agreed terms of the engagement to separately report those matters to the responsible party and/or the intended users of the assurance provider's report.
63. If the work of an expert has been used, the assurance provider shall make no reference to that work in the section of the assurance provider's report that contains the assurance provider's opinion. The assurance provider has sole responsibility for the opinion expressed in the assurance provider's report and, accordingly, that responsibility is not reduced by the assurance provider's use of the work of an expert.

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<sup>6</sup> In those direct reporting compliance engagements where the requirement information is presented only in the assurance provider's report, and the assurance provider concludes that the requirements have not been met/do not conform with the criteria in all material respects, for example: "In our opinion, except for [...], the compliance plan of XYZ meets the requirements specified in [source of requirement and the specified criteria] in all material respects ..." such an opinion or conclusion would be considered also to be qualified (or adverse as appropriate).

64. If the work of the internal auditors has been used, the assurance provider shall make no reference to that work in the section of the assurance provider's report containing the assurance provider's opinion. Notwithstanding its degree of autonomy and objectivity, the internal audit function is not independent of the entity. The assurance provider has sole responsibility for the opinion expressed in the assurance provider's report and, accordingly, that responsibility is not reduced by the assurance provider's use of the work of the internal auditors.

**Other Reporting Responsibilities** (Ref: Para. A57 – A58)

65. In addition to communicating material deficiencies in the compliance system and material compliance breaches, the assurance provider shall consider other reporting responsibilities as specified in the agreed terms of engagement, including the appropriateness of communicating relevant matters of governance interest arising from the compliance engagement with the responsible party.
66. The assurance provider shall consider any other reporting obligations set by regulators, legislators and statutory bodies.

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## **Application and Other Explanatory Material**

**Objectives** (Ref: Para. 8)

- A1. The responsibility for an entity's compliance with applicable requirements rests with the responsible party. A compliance engagement performed by an assurance provider does not relieve the responsible party of its obligations to ensure compliance with those requirements.

**Definitions** (Ref: Para. 9(h), (l) and (n))

- A2. Engagement circumstances include the terms of the engagement, whether it is a reasonable assurance engagement or a limited assurance engagement, the characteristics of the subject matter, the criteria to be used, the needs of the intended users, relevant characteristics of the responsible party and its environment, and other matters, for example events, transactions, conditions and practices, that may have a significant effect on the engagement.
- A3. Suitable criteria are relevant to the particular circumstances of a compliance engagement, and can be:
- established, developed or accepted by those charged with governance of an entity; or
  - established by provisions of an agreement or contract to which the entity is a party; or
  - established in applicable law or regulation.

## Acceptance and Continuance of Compliance Engagements

### *Appropriateness of the Subject Matter* (Ref: Para. 14)

- A4. An appropriate subject matter is:
- (a) identifiable, and capable of consistent evaluation or measurement against suitable criteria; and
  - (b) such that the information about it can be subjected to procedures for gathering sufficient appropriate evidence to support a reasonable assurance or limited assurance opinion, as appropriate.
- A5. The subject matter for a compliance engagement can take many forms. Examples include:
- risk management strategy and plans.
  - environmental management strategy and plans.
  - compliance plans for managed investment schemes.
  - health and safety procedures.

Subject matter information for a compliance engagement can also take many forms. Examples include:

- information returns asserting compliance with capital adequacy requirements of registered banks in accordance with the requirements specified by the Reserve Bank of New Zealand.
  - reports produced under applicable laws or regulations, for example reports produced for the trustee of a continuous issuer of debt securities under the Securities Regulations 1983 asserting compliance with relevant requirements contained in the Securities Regulations.
  - reports produced under the terms of a grant-funding scheme asserting compliance with the terms of the grant for grant accountability purposes.
- A6. The characteristics of different subject matter, for example the degree to which information concerning the subject matter is objective versus subjective, historical versus prospective, qualitative versus quantitative, affect:
- (a) the precision with which the subject matter can be evaluated or measured against the criteria; and
  - (b) the persuasiveness of available evidence.

### *Suitable Criteria* (Ref: Para. 17)

- A7. The criteria used for purposes of a compliance engagement will vary depending on the nature of the applicable requirements. Suitable criteria should have the characteristics of being relevant, complete, reliable, neutral and understandable and are context-specific. For a compliance engagement, the criteria an assurance provider is required to use to evaluate and measure the responsible party's compliance with requirements may be specified in the laws, regulations, agreements, contracts, standards codes or policies.
- A8. Criteria may either be established under an existing framework designed to meet the common needs of a number of intended users or user groups, or may be specifically

developed to meet the needs and purposes of specific groups of users, for example for use by a prudential regulator.

- A9. Examples of suitable criteria that may apply in the context of compliance engagements include:
- (a) externally available criteria under law or directives, including:
    - legislation and/or regulations, including exemption notices issued under legislation.
    - enforceable undertakings.
    - ministerial or government directives.
    - guidelines or practice notes issued by a regulator or oversight agency.
    - industry or professional obligations (professional standards or guidance, codes of practice or conduct).
    - enforceable contractual obligations.
  - (b) internally imposed criteria, as determined by management or those charged with governance of the entity, including:
    - organisational policies and procedures; practice codes; codes of conduct.
    - frameworks developed for internal use, or adopted by an entity to demonstrate compliance in a particular area (for example, environmental management; social responsibility; quality management).

#### **Agreeing the Terms of the Compliance Engagement** (Ref: Para. 23-26)

- A10. The reports to be provided and the extent of the responsibility assumed by an assurance provider in a compliance engagement may vary considerably with the circumstances.
- A11. It is important that there be a clear understanding and agreement with the client (the engaging party or the responsible party) as to the nature of the services to be provided and the nature of the report. The agreed terms of the engagement should be put in writing to avoid future misunderstandings. A written engagement letter normally provides the clearest record of agreement reached with the client.
- A12. Reporting responsibilities specified in legislation or regulations address matters of interest or concern to regulators. Some legislative or regulatory requirements may create a unique reporting relationship between the assurance provider and the regulator by requiring the assurance provider to report directly to the regulator without necessarily involving the responsible party, or those charged with governance of the entity for which the assurance provider is appointed to undertake the compliance engagement.
- A13. The responsible party's involvement in the engagement is important because the matters of interest or concern to the regulator are inherently of direct relevance to the responsible party. The extent of the involvement of the responsible party will vary with the nature of the reporting requirements. As a minimum however, the responsible party would need to have a clear understanding of:
- (a) the nature of the reporting requirements and their responsibilities in relation to those requirements;

- (b) the information the assurance provider will require in order to assess this responsibility, including any representations that will be required; and
- (c) the process the assurance provider will follow in issuing any reports required under the engagement.

A14. Whenever practical, the intended users or their representatives should be involved with the assurance provider and the responsible party (and the engaging party if different) in determining the requirements for the compliance engagement.

*Changes to the Engagement* (Ref: Para. 27)

A15. The responsible party may request an assurance provider to change the engagement from a reasonable assurance engagement to a limited assurance engagement, or to a non-assurance engagement. The assurance provider should not agree to any change in the engagement without reasonable justification. A change in circumstances which affects the intended users' requirements, or a misunderstanding concerning the nature of the engagement, ordinarily will justify a request for a change in the engagement.

**Planning and Performing the Compliance Engagement** (Ref: Para. 29)

A16. Planning the compliance engagement ordinarily involves developing an overall strategy for the scope, emphasis, timing and conduct of the engagement, and an engagement plan, consisting of a detailed approach outlining the nature, timing and extent of evidence gathering procedures to be performed and the reasons for selecting them<sup>7</sup>. Ordinarily, adequate planning:

- helps to ensure that appropriate attention is devoted to important areas of the engagement based on an assessment of compliance engagement risk;
- assists the assurance provider to identify potential problems on a timely basis and properly organise and manage the compliance engagement in order for it to be performed in an effective manner;
- assists the assurance provider to properly assign work to compliance engagement team members, and facilitates their direction and supervision and the review of their work; and
- will assist the coordination of work done by other assurance practitioners and experts (where applicable).

A17. The nature and extent of planning activities will vary with the engagement circumstances, for example:

- the size and complexity of the entity; and
- the assurance provider's previous experience with the entity.

A18. Matters the assurance provider considers as part of the planning activities include:

- the terms of the engagement;

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<sup>7</sup> The planning procedures relevant to an audit engagement are contained in ISA (NZ) 300, "Planning an Audit of Financial Statements", and may be helpful in determining planning procedures applicable to a compliance engagement.

- the characteristics of the applicable requirements and the relevant criteria;
  - the engagement process and possible sources of evidence;
  - understanding of the entity, its environment and its compliance system, including the risks that the entity may not be compliant with the applicable requirements;
  - identification of intended users and their needs, and consideration of materiality and the components of compliance engagement risk; and
  - personnel and expertise requirements, including the nature and extent of experts' involvement if required.
- A19. Planning is not a discrete phase, but rather a continual and iterative process throughout the compliance engagement. As a result of unexpected events, changes in conditions, or the evidence obtained from the results of evidence-gathering procedures, the assurance provider may need to revise the overall strategy and compliance engagement plan, and the nature, timing and extent of further procedures.
- A20. As part of the planning phase of the compliance engagement the assurance provider ordinarily performs a combination of evidence-gathering procedures. The types of procedures that may be undertaken include:
- risk assessment of the entity's compliance system;
  - review of the operation of the compliance system, including the operation of controls relevant to achievement of the entity's compliance objectives;
  - review of work performed by the entity's internal auditors and assessment of the reliance that may be placed on this work by the assurance provider.

*Understanding the Entity* (Ref: Para. 31)

- A21. Obtaining an understanding of the entity, the requirements, criteria and other engagement circumstances is an essential part of planning and performing a compliance engagement. That understanding ordinarily provides the assurance provider with a frame of reference for exercising professional judgement throughout the engagement, for example when:
- considering the elements of the entity's compliance system;
  - identifying where special consideration may be necessary, for example factors indicative of fraud, and the need for specialised skills or the work of an expert;
  - establishing and evaluating the continued appropriateness of quantitative materiality levels (where appropriate), and/or considering qualitative materiality factors;
  - designing and performing further evidence-gathering procedures to reduce compliance engagement risk to an acceptable level; and
  - evaluating evidence, including the reasonableness of the responsible party's oral and written representations.
- A22. The assurance provider considers whether the understanding is sufficient to assess the risks that the entity is, or may be, materially non-compliant with the applicable requirements.

*Elements of an Entity's Compliance System* (Ref: Para. 32)

A23. The nature and extent of planning and subsequent evidence gathering procedures will vary with the engagement circumstances, and the maturity of the entity's compliance system.

Elements of an entity's compliance system ordinarily include the following:

- procedures for identifying and updating applicable requirements, and identifying control objectives relating to those requirements;
- staff training and awareness programmes;
- procedures for assessing the impact of applicable requirements on the entity's key business activities;
- controls embedded within key business processes designed to ensure compliance with applicable requirements;
- processes to identify and monitor the implementation of further mitigating actions required to ensure that applicable requirements are met;
- a monitoring plan to test key compliance system controls on a periodic basis and report exceptions;
- procedures for identifying, assessing, rectifying and reporting compliance deficiencies, incidents and breaches;
- periodic sign off by management or those charged with governance and/or external third party outsourced service providers as to compliance with applicable requirements; and
- a compliance governance structure that establishes responsibility for the oversight of the compliance system with those charged with governance of the entity.

**Materiality and Compliance Engagement Risk***Materiality* (Ref: Para. 33)

A24. The assurance provider needs to consider materiality:

- (a) when determining the nature, timing and extent of evidence-gathering procedures; and
- (b) when evaluating whether a detected or suspected compliance breach is material.

The assurance provider's consideration of materiality should include obtaining an understanding of factors that might influence the decisions of the intended users.

A25. The assurance provider should consider materiality in the context of quantitative and qualitative factors such as:

- the relative magnitude of instances of detected or suspected non-compliance with the applicable requirements;
- the nature and extent of the effect of these factors on the evaluation of compliance with the applicable requirements; and
- the interests of the intended users.

The assessment of materiality and the relative importance of quantitative and qualitative factors in a particular engagement are matters for the assurance provider's professional judgement.

*Compliance Engagement Risk* (Ref: Para. 34)

- A26. In a reasonable assurance engagement the assurance provider needs to reduce compliance engagement risk to an acceptably low level in the circumstances of the engagement to obtain reasonable assurance as the basis for a positive form of expression of the assurance provider's opinion.
- A27. In a limited assurance engagement, the combination of the nature, timing, and extent of evidence-gathering procedures is at least sufficient for the assurance provider to obtain a meaningful level of assurance as the basis for a negative form of expression of the assurance provider's opinion. To be meaningful, the level of assurance obtained is likely to enhance the intended users' confidence about the entity's compliance with the applicable requirements to a degree that is clearly more than inconsequential. The level of accepted compliance engagement risk is higher in a limited assurance engagement than in a reasonable assurance engagement because of the different nature, timing or extent of evidence-gathering procedures.
- A28. In general, compliance engagement risk comprises inherent risk, control risk and detection risk. The degree to which the assurance provider's consideration of these components is reflected in the evidence-gathering process for a compliance engagement is affected by the engagement circumstances, in particular the nature of the applicable requirements and whether a reasonable assurance or a limited assurance engagement is being performed. The components of risk that may require further consideration include those pertaining to compliance policies, resources, monitoring, detection and documentation.

*Material Deficiencies in an Entity's Compliance System* (Ref: Para. 35)

- A29. If the assurance provider becomes aware of material deficiencies in the entity's compliance system, for example:
- a limited or inadequate monitoring plan for key controls over the period; and/or
  - a lack of staff training and awareness of the need to identify, assess and report compliance breaches,

the assurance provider needs to consider the following implications:

- (a) the possible increased risk of non-compliance with the applicable requirements;
- (b) the amount and type of evidence-gathering procedures required to obtain sufficient appropriate evidence; and
- (c) the reporting of material deficiencies to the responsible party and the intended users.

**Obtaining Evidence** (Ref: Para. 37)

- A30. The sufficiency of evidence is the measure of the quantity of evidence obtained. Appropriateness is the measure of the quality of evidence; that is, its relevance and

its reliability. The assurance provider ordinarily considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting an evidence-gathering procedure for which there is no alternative. The assurance provider uses professional judgement and exercises professional scepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the opinion in the compliance report.

- A31. In a compliance engagement evidence may be gathered through enquiry and observation, tests of controls relevant to compliance, substantive tests, for example direct testing of key assertions, and representations received from the responsible party<sup>8</sup>.
- A32. The amount of evidence from each source in A31 which is deemed by the assurance provider to constitute sufficient appropriate evidence to reduce compliance engagement risk to an acceptable level is a matter for the assurance provider's professional judgement.
- A33. A compliance engagement rarely involves the authentication of documentation, nor is the assurance provider trained as or expected to be an expert in such authentication. Under paragraph 37 of this SAE the assurance provider needs to consider the reliability of the information to be used as evidence, for example photocopies, facsimiles, filmed, digitised or other electronic documents, including consideration of controls over their preparation and maintenance where relevant.
- A34. In a compliance engagement sufficient appropriate evidence may be obtained as part of an iterative, systematic process involving:
- (a) obtaining an understanding of the entity's business, its compliance environment and the key elements of the entity's compliance system;
  - (b) obtaining an understanding of the applicable requirements, the criteria and other engagement circumstances which, depending on the subject matter, may include obtaining an understanding of the controls relevant to achieving compliance with the applicable requirements and testing the operating effectiveness of those controls;
  - (c) obtaining an understanding of the internal audit function where appropriate, and any relevant testing of the effectiveness of relevant controls performed as part of that function during the period and evaluating the results of this testing and the level of reliance that can be placed on this work and the impact on further evidence-gathering procedures;
  - (d) based on the understanding acquired under (a), (b) and (c), assessing the risks that the entity may be non-compliant with applicable requirements in a material respect;
  - (e) responding to assessed risks, including developing overall responses, and determining the nature, timing and extent of further procedures;

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<sup>8</sup> The concepts and discussions on evidence relevant to an audit engagement are contained in ISA (NZ) 500, "Audit Evidence", and may be helpful in determining the evidence applicable to a compliance engagement.

- (f) performing further evidence-gathering procedures clearly linked to the identified compliance engagement risks, using a combination of tests of the operating effectiveness of relevant controls, inspection, observation, confirmation, recalculation, re-performance and enquiry. Such further evidence-gathering procedures may involve substantive procedures, including obtaining corroborating information from sources independent of the entity; and
- (g) final evaluation of the sufficiency and appropriateness of evidence obtained to support the opinion expressed in the compliance report.

A35. In a compliance engagement the assurance provider ordinarily performs a combination of evidence-gathering procedures that reflect a strategy to obtain planned levels of assurance from testing the compliance system, and substantive testing, as appropriate to the engagement circumstances. It is unlikely that the required level of assurance may be obtained from only performing one type of testing. The type and extent of these procedures will be based on the complexity of the entity, nature of the business and the risk assessment. The types of procedures that may be undertaken are:

- controls testing and walk-throughs in key risk areas;
- substantive tests; and
- enquiries of the responsible party, and representations.

The results of the above testing are ordinarily evaluated by the assurance provider to ensure the evidence gathered is sufficient and appropriate for the purposes of the engagement.

*Using the Work of an Expert* (Ref: Para. 38)

- A36. When the assurance provider intends to use the work of an expert, the assurance provider needs to evaluate whether the expert whose work is to be used has the necessary capabilities, competence and objectivity for the purposes of the engagement. In the case of an external expert, the evaluation of objectivity should include enquiry regarding interests and relationships that may create a threat to that expert's objectivity.
- A37. The assurance provider needs to obtain a sufficient understanding of the field of expertise of the expert to enable the assurance provider to:
- (a) determine the nature, scope and objectives of that expert's work for the purposes of the engagement; and
  - (b) evaluate the adequacy of that work for the purposes of the engagement.

*Using the Work of Internal Auditors* (Ref: Para. 39)

Obtaining an Understanding of the Internal Audit Function

- A38. An internal audit function may be responsible for providing analyses, evaluations, assurances, recommendations, and other information to management and those charged with governance. Internal auditors may perform activities related to internal control, or activities related to the services and systems.

A39. The scope and objectives of an internal audit function vary widely and depend on the size and structure of the entity and the requirements of management and those charged with governance. Internal audit function activities may include one or more of the following:

- monitoring of internal control. The internal audit function may be assigned specific responsibility for reviewing controls, monitoring their operation and recommending improvements thereto.
- examination of financial and operating information. The internal audit function may be assigned to review the means used to identify, measure, classify and report financial and operating information, and specific enquiry and other procedures into individual items including detailed testing of transactions, balances and procedures.
- evaluation of the economy, efficiency and effectiveness of operating activities including non-financial activities.
- evaluation of compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.

**Representations by the Responsible Party** (Ref: Para. 45-46)

A40. Written confirmation of oral representations reduces the possibility of misunderstandings between the assurance provider and the responsible party.<sup>9</sup> In particular, the assurance provider ordinarily requests from the responsible party a written representation concerning the responsible party's compliance with the applicable requirements, whether or not it is to be made available as an assertion to the intended users. Having no written representation may result in a qualified opinion or a disclaimer of opinion on the basis of a limitation on the scope of the engagement. The assurance provider may also include a restriction on the use of the compliance report.

A41. During a compliance engagement, the responsible party may make representations to the assurance provider, either unsolicited or in response to specific enquiries. When such representations relate to matters that are material to the requirements' evaluation or measurement, the assurance provider ordinarily:

- (a) evaluates their reasonableness and consistency with other evidence obtained, including other representations;
- (b) considers whether those making the representations can be expected to be well informed on the particular matters; and
- (c) obtains appropriate corroborative evidence.

A42. Representations by the responsible party cannot replace other evidence the assurance provider may reasonably expect to be available. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the evaluation or measurement of the applicable requirements, when such evidence would ordinarily be available, constitutes a limitation on the scope of the

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<sup>9</sup> Matters for consideration and an illustrative example of a representation letter relevant to an audit engagement are contained in ISA (NZ) 580, "Written Representations", and may be helpful in determining representations applicable to a compliance engagement

engagement, even if a representation from the responsible party has been received on the matter.

### **Evaluation and Communication of Compliance Breaches** (Ref: Para. 47-48)

- A43. In evaluating any compliance breaches the assurance provider ordinarily considers materiality as specified in the terms of engagement, any relevant legislative, regulatory or other (e.g. contractual) requirements which may apply and the effect on the decisions of the intended users of the assurance provider's report and the assurance provider's opinion.
- A43. The assurance provider ordinarily considers the following factors to evaluate whether a identified or suspected compliance breach is material:
- (a) the size, complexity and nature of the entity's activities;
  - (b) the nature of the breach – whether it is an isolated or systematic occurrence;
  - (c) evidence of a robust compliance system and related controls to detect, rectify and report compliance breaches;
  - (d) commonly accepted practice within the relevant industry;
  - (e) regulatory, legislative or contractual requirements;
  - (f) the impact on the decisions of the intended users and stakeholders of the entity; and
  - (g) the specific terms of the compliance engagement.
- A45. For both reasonable assurance and limited assurance engagements, if the assurance provider becomes aware of a matter that leads the assurance provider to question whether a material compliance breach exists, the assurance provider would ordinarily pursue the matter by performing other evidence-gathering procedures sufficient to enable the assurance provider to form an opinion.

### *Communications with the Responsible Party* (Ref: Para. 48)

- A46. The assurance provider's communications with the responsible party concerning any compliance breaches may be made orally or in writing. Ordinarily, the assurance provider's decision whether to communicate orally or in writing is affected by factors including the following:
- the size, operating structure, legal structure, and communications processes of the entity.
  - the nature, sensitivity and significance of the matters to be communicated.
  - the arrangements made with respect to periodic meetings or reporting of findings from the engagement.
  - the amount of ongoing contact and dialogue the assurance provider has with the responsible party.
  - whether there is any requirement for the assurance provider to communicate with intended users concerning material compliance breaches that are detected or observed in the course of the engagement.

**Considering Subsequent Events** (Ref: Para. 49)

A47. The extent of consideration of subsequent events depends on the potential for such events to affect the entity's compliance with the applicable requirements, and to affect the appropriateness of the assurance provider's opinion. Consideration of subsequent events in some compliance engagements may not be relevant because of the nature of the subject matter and the period being reported on. For example, if a one-off material breach occurs in the period subsequent to the period being reported on, this may not impact on the assurance provider's opinion, however it would ordinarily be reported to the responsible party (and possibly also to intended users of the assurance provider's report where there is a requirement to do so). If the material breach was indicative of a systemic issue that has potential to impact the period on which the assurance provider is reporting then those events would require further consideration in assessing the assurance provider's opinion.

**Documentation** (Ref: Para. 50)

A48. Documentation required under paragraph 50 of this SAE, includes a record of<sup>10</sup>:

- the nature, timing, and extent of the procedures performed to comply with this SAE and applicable legal and regulatory requirements;
- the results of the procedures and the evidence obtained;
- significant professional judgements made in determining the suitable criteria; and
- significant matters arising during the engagement, and the conclusions reached thereon and significant professional judgements made in reaching those conclusions. The existence of difficult questions of principle or judgement calls for the documentation to include the relevant facts that were known by the assurance provider at the time the conclusion was reached.

A49. The documented nature, timing and extent of procedures performed should include:

- the identifying characteristics of the specific items or matters to which procedures were applied;
- who performed the procedures, and the date on which they were completed; and
- who reviewed the work performed, and the date and extent of such review.

A50. It is neither necessary nor practical to document every matter the assurance provider considers when performing a compliance engagement. In applying professional judgement in assessing the extent of documentation to be prepared and retained, the assurance provider may consider what is necessary to provide an understanding of the work performed and the basis of the principal decisions taken (but not the detailed aspects of the engagement) to another experienced assurance practitioner who has no previous experience with the engagement. That other practitioner may only be able to obtain an understanding of detailed aspects of the engagement by discussing them with the assurance provider who prepared the documentation.

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<sup>10</sup> The nature, form, content and extent of documentation relevant to an audit engagement are contained in ISA (NZ) 230, "Audit Documentation", and may be helpful in determining the nature, form, content and extent of documentation applicable to a compliance engagement.

**Preparing the Report** (Ref: Para. 56-57)

- A51. In circumstances when a compliance engagement incorporates both reasonable assurance and limited assurance opinions, the assurance provider needs to clearly separate the two types of opinions expressed.
- A52. In developing the opinion, the assurance provider ordinarily considers all relevant evidence obtained, and whether it appears to corroborate or to contradict the subject matter information.
- A53. ISAE (NZ) 3000 and this SAE do not require a standardised format for reporting on compliance engagements. Instead this SAE identifies the basic elements an assurance provider's report should include. Reports for compliance engagements are tailored to the specific engagement circumstances. The assurance provider may choose a short form or long form style of reporting to facilitate effective communication to the intended users. Short-form reports ordinarily include only the basic elements. Long form reports often describe in detail the terms of the compliance engagement, the criteria being used, and findings relating to particular aspects of the compliance engagement and, in some cases, recommendations, as well as the basic elements. Any findings and recommendations may be clearly separated from the assurance provider's opinion on the entity's compliance with the applicable requirements, and the wording used in presenting them makes it clear whether they affect the assurance provider's opinion. The assurance provider may use headings, paragraph numbers, typographical devices, for example the bolding of text and other mechanisms, to enhance the clarity and readability of the report.

**Content of the Report** (Ref: Para. 58-64)

- A54. A report for a compliance engagement ordinarily describes relevant facts and findings sufficient to allow readers to understand the basis upon which the assurance provider's opinion has been formed. Findings arise from an examination of the underlying facts, comparisons with criteria and the assurance provider's analysis of differences between what is observed and the criteria including, where applicable, the causes and effects of the differences.

*Reporting Additional Information - Findings and Recommendations*

- A55. The assurance provider may expand the content of the report to include other information and explanations that do not directly affect the assurance provider's opinion, but provide additional useful information to the users. Examples include:
- disclosure of materiality considerations applied.
  - findings relating to particular aspects of the compliance engagement.
  - recommendations.

Whether to include any such information depends on its significance to the needs of the intended users. Additional information is clearly separated from the assurance provider's opinion and worded in such a manner so as not to affect that opinion.

*Modifications to the Compliance Report* (Ref: Para. 59)

- A56. In those cases where the assurance provider's unmodified opinion would be worded in terms of the responsible party's assertion, and that assertion has identified and

properly described that the entity does not comply with the applicable requirements, under paragraph 59 of this SAE, the assurance provider needs to either:

- (a) express a qualified or adverse opinion worded directly in terms of the applicable requirements and the specified criteria; or
- (b) if specifically required by the terms of the engagement to word the opinion in terms of the responsible party's assertion, express an unqualified opinion but emphasise the matter by specifically referring to it in the report.

#### **Other Reporting Responsibilities** (Ref: Para. 65-66)

- A57. When considering an appointment to undertake a compliance engagement for an entity under the provisions of applicable legislation or regulations, an assurance provider should obtain an understanding of any special reporting responsibilities assumed by virtue of such appointment. The assurance provider should consider:
- the nature of any special reporting responsibilities associated with the appointment;
  - the implications of any provisions contained in the legislation or regulation enabling any regulator to require additional reports at some future date; and
  - when and how the assurance provider is required to report under those special responsibilities.
- A58. If the provisions of legislation or regulation are not clear regarding the nature and extent of the reporting responsibilities associated with an engagement undertaken pursuant to the relevant legislation or regulations, the assurance provider should endeavour to obtain clarification concerning those responsibilities with the relevant regulator, or obtain an interpretation of those responsibilities from legal counsel.

## Examples of Reports of Compliance Engagements

The following example reports are to be used as a guide only and will need to be adapted according to individual engagement requirements and circumstances.

**Note: Each example report provides two illustrative opinions: (A) Unmodified and (B) Modified.**

### Example 1

#### EXAMPLE OF A REASONABLE ASSURANCE REPORT

#### *INDEPENDENT ACCOUNTANT'S/AUDITOR'S REPORT*

To [Intended Users]

#### **Report on the [appropriate title for the report]**

We have audited the compliance of [name of entity] with the [applicable requirements] for the [period from ..../.../..... to..../..../.....].

#### *Respective Responsibilities*

The [Responsible Party] is responsible for compliance with the [applicable requirements].

Our responsibility is to express an opinion on [name of entity's] compliance with [the applicable requirements], in all material respects. Our engagement has been conducted in accordance with SAE 3100 to provide reasonable assurance that the [name of entity] has complied with the [applicable requirements]. Our procedures included [level of detail included to be determined by the assurance provider]. These procedures have been undertaken to form an opinion as to whether the [name of entity] has complied, in all material respects, with the [applicable requirements] for the [period from ..../.../..... to..../..../.....].

#### *Use of Report*

This report has been prepared for the [Intended Users] of [name of entity] in accordance with [the applicable requirements]. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the [Intended Users] of [name of entity], or for any purpose other than that for which it was prepared.

#### *Inherent Limitations (include where appropriate under paragraph 58(f) of the standard)*

Because of the inherent limitations of [details provided as appropriate by the assurance provider, refer to limitations in evidence gathering procedures and limitations in the responsible party's compliance system], it is possible that fraud, error or non-compliance may occur and not be detected. As the procedures performed for this engagement are not performed continuously throughout [the relevant period] and the procedures performed in respect of [name of entity's] compliance with [the applicable requirements] are undertaken on a test basis, our assurance engagement cannot be relied on to detect all instances where [name of entity'] may not have complied with [the applicable requirements]. The opinion expressed in this report has been formed on the above basis.

Other than in our capacity as assurance provider, we have no relationship with, or interests in, [name of entity].

*Opinion*

## (A) Unmodified

In our opinion, [name of entity] has/have complied, in all material respects, with the [applicable requirements] for the [period from ..../.../..... to...../..../.....].

or

## (B) Modified (under paragraph 59(b)(ii) of SAE 3100)

In our opinion, except for [detail the exception(s) or provide details under a separate section of the report], [name of entity] has/have complied, in all material respects, with the [applicable requirements] for the [period from ..../.../..... to...../..../.....].

*Factual Findings and Recommendations (include as determined by the assurance provider under paragraph A57 of SAE 3100)*

[This section of the report would provide relevant and sufficient information to allow readers to understand the basis upon which the assurance provider's opinion has been formed. The inclusion of this information depends on its significance to the needs of the intended users].

[Assurance provider's signature]

[Date of the Assurance provider's report]

[Assurance provider's address]

**Example 2**

## EXAMPLE OF A LIMITED ASSURANCE REPORT

*INDEPENDENT ACCOUNTANT'S REPORT*

To [Intended Users]

**Report on the [appropriate title for the report]**

We have reviewed the compliance of [name of entity] with the [applicable requirements] for the [period from.../.../..... to.../.../.....].

*Respective Responsibilities*

The [Responsible Party] is responsible for compliance with the [applicable requirements].

Our responsibility is to express an opinion on [name of entity's] compliance with the [applicable requirements], in all material respects. Our review has been conducted in accordance with SAE 3100 to provide limited assurance that the [name of entity] has complied with the [applicable requirements] in all material respects. Our procedures included [level of detail included to be determined by the assurance provider]. These procedures have been undertaken to form an opinion that nothing has come to our attention that causes us to believe that [name of entity] does not comply, in all material respects, with the [applicable requirements] for the [period from .../.../..... to.../.../.....].

*Use of Report*

This report was prepared for the [Intended Users] of [name of entity] in accordance with [applicable requirements]. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the [Intended Users] of [name of entity], or for any purpose other than that for which it was prepared.

*Inherent Limitations (include where appropriate under paragraph 58(f) of the standard)*

Because of the inherent limitations of any [details provided as appropriate by the assurance provider, refer to limitations in evidence gathering procedures and limitations in the responsible party's compliance system, it is possible that fraud, error or non-compliance may occur and not be detected. A review is not designed to detect all instances of non-compliance with the [applicable requirements], as it generally comprises making enquiries, primarily of the responsible party, and applying analytical and other review procedures. The opinion expressed in this report has been formed on the above basis.

Other than in our capacity as reviewer, we have no relationship with, or interests in, [name of entity].

*Opinion***(A) Unmodified**

Based on the evidence obtained from the procedures we have performed, nothing has come to our attention that causes us to believe that [name of entity] does not comply, in all material respects, with the [applicable requirements] for the [period from .../.../..... to.../.../.....].

Or

(B) Modified (under paragraph 59(b)(ii) of SAE 3100)

Based on the evidence obtained from the procedures we have performed, except for the matter noted [detail the exception(s) or provide details under a separate section of the report], nothing has come to our attention that causes us to believe that [name of entity] does not comply, in all material respects, with the [applicable requirements] for the [period from .../.../..... to.../.../.....].

*Factual Findings and Recommendations (include as determined by the assurance provider under paragraph A55 of SAE 3100)*

[This section of the report would provide relevant and sufficient information to allow readers to understand the basis upon which the assurance provider's opinion has been formed. The inclusion of this information depends on its significance to the needs of the intended users].

[Assurance provider's signature]

[Date of the Assurance provider's report]

[Assurance provider's address]