

A better way to build trust: Cutting-edge reporting on controls



The process of building trust is about to become a lot more rigorous with the introduction of a new standard for companies to report on the strength of their broader system of controls. Organisations should consider if this standard provides an opportunity to build customer and stakeholder confidence and differentiate them from competitors.

As organisations become more complex, so too have the non-financial controls companies use to keep their business on track.

Emerging risks such as data privacy, cloud computing, supply chain risk, and ethical sourcing have all extended the perimeter of risk that companies must control and manage.

But the standards used to guide the assessment and reporting of these non-financial controls have not kept pace with the changing nature of the risk.

Until now, that is. The introduction of the new ASAE 3150 (Assurance Engagement on Controls) by the Auditing and Assurance Standards Board provides greater clarity, structure and guidance for organisations looking to obtain and/or provide confidence and build trust around these issues.



What's different?

The new standard replaces the existing standard, AUS 810 Special Purpose Reports on the Effectiveness of Control Procedures, and enhances the currently popular ASAE 3000 in a number of important ways.



It provides the ability to report to a much wider audience, including the public, if that's what a company wants to do. Many standards for example limit the distribution of the report to a company's auditors, effectively limiting the audience with which a company can establish trust.



The new standard provides clarity on how to report on controls that have been outsourced. For example, a company that provides software solutions may have outsourced its data hosting offshore. However it still needs to be confident that the controls in the supplier business are robust and effective. The new standard specifically considers outsourced arrangements, which are becoming increasingly common.



It provides useful direction around the issue of materiality. In other words, it helps organisations and their auditors to evaluate what controls are material to their business, allowing the assessment and reporting process to focus on the things that matter most.



The new standard clearly distinguishes between reporting on the design of controls and reporting on the implementation of controls. In other words, you don't necessarily need to provide evidence of implementation before you can report on design. The benefit of this is that it allows early identification of control design issues before investing in their implementation.



The new ASAE 3150 considers integrated reporting of both financial and non-financial controls. Previously, companies wanting assurance over a financial and non-financial control were required to prepare separate reports for each type. Under the new standard, an opinion over the two types may be provided in the same report, making the reporting process more efficient for users as well as making the report easier to read.

What does this mean for your organisation?

The new standard is a significant improvement in the reporting of non-financial controls over emerging risks such as data privacy, cloud computing, supply chain risk, and ethical sourcing. It offers companies the opportunity to seek assurance that their controls are both well-designed and effective. And it allows them to obtain comfort that the controls being used by their suppliers are well-designed and effective too.

This is particularly relevant in the case of outsourced service delivery centres (SDCs). As the prevalence of outsourcing continues to grow, we are increasingly being asked for our views on the control environments in SDCs. What has become clearer to us is that it is not just the controls that are important, but also the control and monitoring of the SDC's performance against defined standards.

In essence, the new standard provides businesses with an opportunity to build customer and stakeholder trust, and differentiate their organisation from competitors. Organisations should consider how they plan to apply the new standard to the current system of control reporting in both their own business and in their suppliers' business.

When does the new standard apply?

The ASAE 3150 standard, which replaces the AUS 810 standard, applies to audit engagements commencing on or after 1 January 2016. However companies may wish to apply the new standard now if they so wish, in conjunction with the adoption of the revised ASAE 3000. The AUS 810 standard remains operative for assurance engagements commencing on or before 31 December 2015.



Standards applicable to engagements on controls

	Applicable AUASB standards				
	ASAE 3000 assurance engagements (not historical financial info)	ASAE 3150 assurance engagements on controls (this ASAE)	ASAE 3402 controls at a service organisation	ASAE 3100 compliance engagements	ASRS 4400 agreed-upon procedures
Subject matter of controls assurance engagement	1. Entity's controls over:				
	– Financial reporting	✓	✓		
	– Non-financial reporting	✓	✓		
	– Services or functions	✓	✓		
	2. Entity's controls over compliance with requirements ¹	✓	✓		
	3. Entity's compliance with requirements specifying controls	✓			✓ ²
	4. Service Organisation's controls:				
	– Relevant to user entities' non-financial reporting, services or functions	✓	✓		
	– Relevant to user entities' financial reporting	✓		✓	
	5. Controls over economy, efficiency or effectiveness	✓	✓		
	6. Procedures restricted to those specified by engaging party				

¹ Where controls not specified in law, regulation or quasi-regulation.

² This ASAE may provide useful guidance for engagements on entity's compliance with requirements specifying controls.

Source: ASAE 3150 Appendix 3

Potential uses of this reporting option

Companies should consider how this reporting standard can be applied as a mechanism to provide comfort over their, and their suppliers, control environments. Examples could include...



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