



AUASB Agenda Paper

Title:	ISSA 5000 – Firm quality management and relevant ethical requirements, including ‘at least as demanding’ test	Date:	16 December 2024
Office of AUASB Staff:	Rene Herman / Doug Niven	Agenda Item:	4.1

Objectives of Agenda Item

1. The objective of this Agenda Item is to seek AUASB member agreement that the only amendments to be made when adopting ISSA 5000 in Australia in relation to firm quality management standards and relevant ethical requirement are to specify that:
 - (a) the firm quality management standards to be applied is ASQM 1; and
 - (b) the AUASB is the authority that will determine requirements that are ‘at least as demanding’ as ASQM 1 and the ‘relevant ethical requirements’.

Question for AUASB members

Question for AUASB members
Do AUASB members agree that the only amendments to be made when adopting ISSA 5000 in Australia in relation to firm quality management standards and relevant ethical requirement are to specify that: <ol style="list-style-type: none">(a) the firm quality management standards to be applied is ASQM 1; and(b) the AUASB is the authority that will determine requirements that are ‘at least as demanding’ as ASQM 1 and the ‘relevant ethical requirements’?

Background

2. ISSA 5000 applies from years commencing 15 December 2026. Consistent with strong feedback in response to AUASB *Consultation Paper- Assurance Over Climate and Other Sustainability Information (April 2024)*, it is proposed that ISSA 5000 be adopted in Australia for years commencing 1 January 2025, subject to the assurance phasing model.
3. At its meeting on 16 December 2024, the AUASB will consider:
 - (a) issuing an Australian equivalent of ISSA 5000 *General Requirements for Sustainability Assurance Engagements* in January 2025 (ASSA 5000) without re-exposure in Australia (Agenda Paper 4.3);
 - (b) its proposed assurance phasing model with assurance commencing for Group 1 entities from years commencing 1 January 2025 (Agenda Paper 5);
 - (c) its approach to sustainability assurance practitioners using direct assistance by an entity’s internal auditors (Agenda Paper 4.2);
 - (d) the ‘relevant ethical requirements’ to be mandated in ASSA 5000 given that the IESBA’s new Part 5 of the Code of Ethics on sustainability will not be included in the APESB’s Code of Ethics (APES 110) until mid to late 2025 (this Agenda Paper); and
 - (e) whether the AUASB should be the only body to determine when firm quality management and ethical requirements are at least as demanding as ASQM 1 and relevant ethical requirements (this Agenda Paper).

4. The AUASB is working with the Accounting Professional & Ethical Standards Board (APESB) on the matters in paragraphs 1(c) and (d) above.

Matters raised in AUASB submission on IAASB exposure draft

5. The table below shows comments made by the AUASB in its *Submission to the IAASB on the exposure draft of a proposed ISSA 5000* in November 2023, together with the IAASB response and proposed approach in ASSA 5000.

No.	AUASB submission	IAASB response	Proposed approach in adopting ISSA 5000 in Australia
	The AUASB strongly disagrees with the approach to quality management and ethics underpinning ED 5000. Our concerns are as follows:		
(a)	<i>Imposing firm quality management and ethics through an assurance standard:</i> We believe that it is not appropriate for an assurance standard to 'back door' requirements concerning firm quality management and ethics. ED-5000 does this through requirements on the engagement leader to be a member of a firm with certain quality management and ethical requirements, and a requirement to report compliance. Failure to report compliance with standards "at least as demanding" as ISQM1 and the Code of Ethics would result in non-compliance with ISSA 5000.	Further strengthening the requirements	No amendments.
(b)	<i>Firm quality management should be dealt with through a separate dedicated project of the IAASB:</i> Ethics should be a matter solely for the IESBA which is currently developing ethical requirements for sustainability. Any reporting requirement should be about what requirements were followed and to what extent. In particular, we are concerned that:	Further strengthening the requirements	No amendments.
(b) I	<i>National standards setters may not be able to make ISSA 5000 compliant standards:</i> Some national sustainability assurance standard setters do not have the remit to set firm quality management and ethical requirements. These standard setters may need to remove all references to quality management and ethics from the final ISSA 5000, with the resulting standard not being ISSA compliant;	Further strengthening the requirements	
(b) II	<i>Standards for non-accountant assurance providers:</i> The IAASB should consider whether for assurance over a narrow piece of information requiring highly specialised technical expertise, different quality management and ethical requirements could be applied by non-accountant practitioners that are more relevant and appropriate than requirements at least as demanding as ISQM 1 and the Code of Ethics in ED-5000. For example, assurance over the entity's assessment of soil quality which requires an understanding of chemical and other properties relevant to the current and future use of soil by the entity or entities in its value chain, and the use and	Not addressed	The Office of the AUASB intends to issue supplementary guidance in this area if this aspect is not covered by IAASB guidance.

No.	AUASB submission	IAASB response	Proposed approach in adopting ISSA 5000 in Australia
	replacement of minerals consumed in use of the land and current levels and expected trends in salinity. This may require particular approaches to review and re-testing that are not contemplated by ISQM 1 while some elements of ISQM 1 may not be as important or relevant to this narrow piece of assurance work; and		
(b) III	<u><i>Ethics and Quality Management “at least as demanding”</i></u> : A lack of clarity on the concept of “at least as demanding” could result in inconsistent firm quality management and ethical requirements. If the IAASB were to retain the requirements concerning firm quality management and ethics, which we do not support, the term “at least as demanding” should be sufficiently clear to avoid inconsistency in practice. For example, high level principles might be regarded as being ‘at least as demanding’ as the Code of Ethics. Alternative quality management specific to another profession might be regarded as more demanding than ISQM 1. If the requirement on firm quality management and ethics were to remain, the IAASB should consider allowing non-accountants time to transition to those requirements which may necessitate new processes.	Addressed. In the final ISSA 5000 requirements ‘at least as demanding’ can only be specified by an appropriate authority and not by the practitioner.	No amendments, other than to specify that the AUASB is the authority in Australia to determine requirements that are ‘at least as demanding’ as ASQM1, ASQM 2 and ‘relevant ethical requirements’.

‘Relevant ethical requirements’

6. ISSA 5000 contains a number of provisions that require compliance with ‘relevant ethical requirements’ that include the new IESBA Code of Ethics (see relevant extracts from ISSA 5000 in Appendix 1).
7. The IESBA Code includes a new Part 5 specific to sustainability assurance engagements, which is based on Part 4A for financial report audits and reviews.
8. The IESBA Code is expected to be certified by the Public Interest Oversight Board on 16 January 2025. The APESB will expose the new Part 5 in Australia with a view to adopting Part 5 in June 2025.
9. There will be a gap of about 6 months between the AUASB issuing ASSA 5000 and the updated APES 110 being available. This will affect assurance for Group 1 entities with reporting years commencing 1 January to 30 June 2025. For these reports, it is proposed that there would be limited assurance over some disclosures in the sustainability report as discussed in Agenda Paper 5. NGRS assurance under ASAE 3410 would not be affected.
10. The main differences between Part 4A and Part 5 concern independence through value chains. However, there would be no requirement for reporting or assurance over Scope 3 emissions for the affected entities. The IESBA Code also has a delayed operative date for the provisions on independence through value chains.
11. The *Corporations Act 2001* requires information in sustainability reports to be audited/reviewed by the auditor of the financial report. These auditors are already subject to Part 4A, upon which Part 5 is based.

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12. Non-accountant practitioners who do not want to comply with the new IESBA Code for voluntary assurance over voluntary disclosures can choose not to claim compliance with ASSA 5000.
13. While the final changes to IESBA Code are still to be exposed in Australia by the APESB:
 - (a) There has been significant outreach and feedback on the proposals in Australia and internationally both before and after the IESBA issued an exposure draft in January 2024 (see [*IESBA Launches Public Consultation on New Ethical Benchmark for Sustainability Reporting and Assurance*](#)). The IESBA considered submissions received, including a submission from the APESB;
 - (b) Channa Wijesinghe, the APESB Chief Executive Officer, is a member of the IESBA and was one of three IESBA members on the Task Force that developed the new Part 5. Other Task Force members were Mark Babbington of the UK Financial Reporting Council and Jens Poll who is with Accountancy Europe; and
 - (c) In the past, the APESB has accepted all changes to the IESBA Code and added some Australian specific requirements in APES 110.
14. It would not be necessary for the AUASB to expose the IESBA Code before adopting ISSA 5000 in Australia. This is consistent with the AUASB not exposing APES 110 or considering its contents before adopting APES 110 in ASA 102.
15. Group 1 entities are predominantly audited by the six largest audit firms, who will be aware of the new Part 5 of the IESBA Code and the intention that ISSA 5000 and the revised IESBA Code be applied as a package.
16. There is no impediment to an AUASB standard referring to the international of a document rather than a domestic version.
17. The options are to apply the new IESBA Code (including the new Part 5) or the current APES 110 (including the old Part 4B).
18. In addition to the matters noted above, arguments in favour of applying the new IESBA Code to 30 June 2025 include:

Arguments for applying the new IESBA Code	
1	ASSA 5000 would be consistent with ISSA 5000.
2	The IESBA Code now includes a new Part 5 that was specifically developed for assurance engagements over information in general purpose sustainability reports used by investors. APES 110 does not yet include the new Part 5. Applying the current APES 110 would result in Part 4B applying which contains much lower standards than Part 5 (which was modelled on Part 4A).
3	Part 4A only applies to audits or reviews of historical financial reports. If the current APES 110 were adopted, the financial auditor would be subject to Part 4A in connection with the audit or the financial report and Part 4B for the sustainability report. Part 4B alone would apply to non-accountant practitioners claiming compliance with ASSA 5000 for voluntary assurance.
4	There would need to be a compelling reason not to adopt the IESBA Code. The compelling reasons test would not appear to be met because applying APES 110 instead would result in lesser requirements. Under paragraphs 12 to 14 of the <i>AUASB Policy and Process for International Conformance and Harmonisation of Standards (January 2022)</i> , the AUASB must not modify an IAASB standard if that would “result in a standard that conflicts with, or results in lesser requirements than the international standard”. See also paragraph 45 of the <i>AUASB Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications (September 2021)</i> .
5	The new Part 5 of the IESBA Code has been subject to extensive due process by the IESBA and will be certified by the Public Interest Oversight Board on 16 January 2025.

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Arguments for applying the new IESBA Code	
6	The APESB may impose higher requirements than the IESBA but would not impose lower requirements.
7	The APESB will update APES 110 by mid to late 2025. Any higher APESB requirements can be adopted in ASSA 5000 at that time by replacing references in ASSA 5000 to the new APES 110. Any higher requirements could be applied prospectively from the operative date of APES 110.
8	Adopting the current APES 110 and applying Part 4B rather than the new IESBA Code and Part 5 could adversely affect the ‘at least as demanding’ test.
9	APESB staff have indicated support for the AUASB adopting the new IESBA Code for sustainability assurance engagements under ASSA 5000 until APES 110 is updated.
10	The Big 4 audit firms internationally are expected to require national network firms to adopt ISSA 5000 and the IESBA Code.
11	Europe is adopting ISSA 5000 and the new IESBA Code for sustainability assurance engagements for years ending 31 December 2024.
12	On 12 November 2024 IOSCO issued a media release <i>IOSCO Issues Statement of Support on the IAASB’s International Standard on Sustainability Assurance (ISSA) 5000</i> which said “IOSCO believes the Standard can support high-quality assurance over sustainability-related information and may enhance consistency, comparability and reliability of sustainability-related information provided to the market. The final Standard, together with the IAASB’s plan to develop implementation support materials and other capacity-building efforts, can contribute to enhancing trust in the sustainability-related information provided to investors.”.
13	The main difference in approach from Part 4A that applies to financial auditors for financial report audits and Part 5 of the IESBA Code that applies for sustainability assurance is in relation to value chains. The IESBA significantly reduced the proposed requirements in this area following public consultation and these provisions will not be relevant until Scope 3 reporting and assurance commences. That will be after the APESB has consulted on Part 5 in Australia, issued a revised Code and that Code can be considered for adoption by the AUASB.
14	There was strong support for adopting ISSA 5000 in Australia, which included adopting the expected Part 5 of the new IESBA Code, in response to AUASB <i>Consultation Paper- Assurance Over Climate and Other Sustainability Information (April 2024)</i> .
15	The IAASB and IESBA regard ISSA 5000 and the new IESBA Code as a package. It would be inconsistent to adopt one without the other.

19. Arguments in favour of applying the current APES 110 until 30 June 2025 include:

Arguments for applying the current APES 110	
1	While there has been significant outreach in Australia, the final Part 5 of the IESBA Code will not have been exposed in Australia.
2	While the new Part 5 is consistent with Part 4A, some auditors of affected Group 1 entities may not be expecting that the new Part 5 will apply from 1 January 2025 and may not be aware of the differences between Part 4A and Part 5.
3	While not recommended, if the AUASB decided not to adopt ISSA 5000 at this time, <i>ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i> would apply. There might then be a basis for applying the current APES 110 until the new Part 5 is adopted by the APESB and operative in mid-2025.

20. It is recommended that the references to the IESBA Code be retained in ASSA 5000 at this time. An amendment to ASSA 5000 can be made to adopt the APES 110 after it is amended to include the new Part 5 in mid-2025.

‘At least as demanding’ test

21. ISSA 5000 provides that firm quality management and ethical requirements can be applied that are ‘at least as demanding’ as ISQM 1 and the IESBA Code. Whether requirements are ‘at least as demanding’ is to be determined by an ‘appropriate authority’ (subparagraphs 30(b) and 34(b) of ISSA 5000).

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22. The *Corporations Act 2001* requires information in sustainability reports to be audited/ reviewed by the auditor of the financial report who are already subject to ASQM 1 and Part 4A of the current APES 110.
23. Application paragraphs A63 (for ethics) and A74 (for firm quality management) of ISSA 5000 says:

“An appropriate authority could be a national standard setter, regulator, or oversight body with responsibility for audit, assurance or related relevant ethical requirements, or a designated accreditation organization recognized by a public authority.”
24. It is recommended that ASSA 5000 make the AUASB the only party to determine whether requirements to:
 - (a) provide certainty to stakeholders; and
 - (b) avoid parties making approaches to multiple authorities (e.g. the AUASB, ASIC and the FRC) to determine what is ‘at least as demanding.

Next steps

25. The Office of the AUASB will prepare a draft of ASSA 5000 that is consistent with the decisions of the AUASB on the recommendations in this paper for approval by AUASB members out of session. The timing of this approval process may depend upon decisions on other Agenda Papers presented to the 16 December 2024 AUASB meetings on assurance phasing and direct assistance by internal auditors.

APPENDIX 1: 'RELEVANT ETHICAL REQUIREMENTS' – EXTRACTS FROM ISSA 5000

1. Paragraph 18 of ISSA 5000 defines 'relevant ethical requirements as:

“Principles of professional ethics and ethical requirements that are applicable to practitioners when undertaking assurance engagements on sustainability information. Relevant ethical requirements comprise the provisions of the IESBA Code related to sustainability assurance engagements, together with national requirements that are more restrictive, or professional requirements or requirements in law or regulation that an appropriate authority has determined to be at least as demanding as the provisions of the IESBA Code related to sustainability assurance engagements. (Ref: Para. A62–A63)”
2. ISSA 5000 contains a number of requirements concerning compliance with provisions of the IESBA Code related to sustainability assurance, including:
 - “26. The practitioner shall accept or continue the engagement only when:
 - (a) The practitioner has no reason to believe that relevant ethical requirements, including independence, will not be satisfied; (Ref: Para. A58–A64)…”
 - “34. The practitioner shall comply with relevant ethical requirements, including those related to independence, that comprise: (Ref: Para. A58–A61, A64)
 - (a) The provisions of the IESBA Code related to sustainability assurance engagements, together with national requirements that are more restrictive; or
 - (b) Professional requirements, or requirements in law or regulation, that an appropriate authority has determined to be at least as demanding as the provisions of the IESBA Code related to sustainability assurance engagements. (Ref: Para: A62–A63)
 35. The engagement leader shall take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the engagement, and the firm's related policies or procedures, including those that address: (Ref: Para. A84–A85)
 - (a) Identifying, evaluating and addressing threats to compliance with relevant ethical requirements, including those related to independence;
 - (b) Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches; and
 - (c) The responsibilities of members of the engagement team when they become aware of an instance of non-compliance with laws and regulations by the entity.
 36. If matters come to the engagement leader's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement leader shall evaluate the threat through complying with the firm's policies or procedures, using relevant information from the firm, the engagement team or other sources, and take appropriate action. (Ref: Para. A85–A86)
 37. Throughout the engagement, the engagement leader shall remain alert, through observation and making inquiries as necessary, for evidence of breaches of relevant ethical requirements by members of the engagement team. If matters come to the engagement leader's attention through the firm's system of quality management or otherwise that indicate that members of the engagement team have breached relevant ethical requirements, the engagement leader, in consultation with others in the firm, shall determine the appropriate action. (Ref: Para. A86)”



AUASB Agenda Paper

Title:	ISSA 5000 - Direct Assistance by Internal Audit	Date:	16 December 2024
Office of AUASB Staff:	Rene Herman	Agenda Item:	4.2

Objective of Agenda Item

1. The objective of this Agenda Item is to provide a summary of stakeholder feedback received on the Consultation Paper on *Prohibiting Sustainability Assurance Practitioners from Using Direct Assistance by Internal Auditors* and seek feedback from the AUASB on the way forward.

Questions for AUASB members

No.	Question for AUASB members
1	Do AUASB members have any preliminary feedback on the possible options outlined in the table in paragraph 15?

Background

2. The AUASB issued the [Consultation Paper: Prohibiting Sustainability Assurance Practitioners from Using Direct Assistance by Internal Auditors](#) in September 2024 for a 75-day comment period. Comments closed on 1 December 2024.
3. The Office of the AUASB held three in-person roundtables in Sydney, Melbourne and Perth and one virtual roundtable to obtain stakeholder feedback on the Consultation Paper (in conjunction with ED 02/24 on ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001*). These roundtables were attended by over 90 Australian stakeholders representing audit firms (small, medium and large), public sector auditors, non-accountant assurance providers, sustainability consultants, preparers, directors, regulators, professional bodies, and academics.
4. The Office of the AUASB provided a verbal update on the key themes heard from the roundtables at the November 2024 AUASB meeting:
 - (a) Stakeholders supported consistency in the approaches for assurance over sustainability information and audits of financial reports.
 - (b) The majority of stakeholders agreed with the proposed prohibition for sustainability assurance engagements because they believed there are actual or perceived independence considerations and consistency with the existing prohibition for financial report audits in [ASA 610 Using the Work of Internal Auditors](#).
 - (c) Some stakeholders did not support a prohibition for a transitional period given possible capacity and capability challenges for auditors with the phasing in of sustainability assurance.
 - (d) Some did not support a prohibition for voluntary assurance.
 - (e) The majority of stakeholders did not support the prohibition in ASA 610 being reconsidered because they believed there are actual or perceived independence considerations. However, some stakeholders, while supportive of alignment for sustainability assurance and financial report audits encouraged the AUASB to revisit the prohibition in ASA 610.

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Written submissions received

5. The Office of the AUASB received 9 public submissions and 1 confidential submission. Links to the public submissions can be found in Appendix 1 to this paper and a link to the confidential submission is available in the board members only areas of the AUASB website.
6. Stakeholder responses to the main questions in the Consultation Paper are analysed below.

A. Should assurance practitioners be prohibited from using direct assistance by internal auditors in a sustainability assurance engagement?

Support for the AUASB proposals

7. Eight out of ten written submissions (other than the IIA and GHD) supported the prohibition for the following reasons:
 - (a) To support the external auditor's actual or perceived independence and objectivity;
 - (b) Consistency with established principles in Australia for financial report audits in ASA 610, including with regard to the interconnectedness between information and assumptions in sustainability assurance and the financial report; and
 - (c) Consistency with ASA 610 would avoid confusion, the potential to undermine the credibility of both the financial and sustainability reports, and a perception of different tiers of quality and independence for financial reports and sustainability reports.
8. One out of the eight written submissions that supported the prohibition would like the AUASB to consider developing specific guidance to assist Australian auditors in assessing the implications of this prohibition in the international context.

No support for the AUASB proposals

9. Two written submissions (IIA and GHD) were not supportive of the prohibition for the following reasons noted in the table below. The table also includes comments by the Office of the AUASB.

No.	Submission	Comment by Office of AUASB
1	Direct assistance should not have been banned in ASA 610 and a disagreement with the reasoning behind that prohibition	The prohibition was deliberated by the AUASB at the time after due process. The APESB also prohibited the use of direct assistance.
2	Internal audit is a profession with its own high standards, bound by the Global Internal Audit Standards, which are set according to a due process followed by the International Internal Audit Standards Board and overseen by the IPPF Oversight Council. The Internal Audit function is required to undergo an external quality assessment of their compliance with the Standards by an independent expert at least once every 5 years. Internal auditors have a direct reporting line to the board or audit committee.	See above.
3	A prohibition would be inconsistent with s312 of the <i>Corporations Act 2001</i> (the Act) that requires officers to assist the auditor in the conduct of the financial report audit and sustainability assurance engagements and s310 which allows the auditor to obtain assistance.	The internal audit work may not be directly performed by an 'officer' of the entity. However, an 'officer' may agree to the company undertaking the internal audit work as direct assistance and have responsible for the assistance being provided. We need to clarify arrangements with the IIA and consider

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No.	Submission	Comment by Office of AUASB
		<p>further whether there could be any inconsistency between a prohibition and s310 and/or s312 of the Act. For information, the key part of the definition of an 'officer' in s9AD of the Act is as follows:</p> <p style="padding-left: 40px;">"An officer of a corporation (other than a CCIV) is:</p> <p style="padding-left: 40px;">(a) a director or secretary of the corporation; or</p> <p style="padding-left: 40px;">(b) a person:</p> <p style="padding-left: 80px;">(i) who makes, or participates in making, decisions that affect the whole, or a substantial part, of the business of the corporation; or</p> <p style="padding-left: 80px;">(ii) who has the capacity to affect significantly the corporation's financial standing; or</p> <p style="padding-left: 80px;">(iii) in accordance with whose instructions or wishes the directors of the corporation are accustomed to act (excluding advice given by the person in the proper performance of functions attaching to the person's professional capacity or their business relationship with the directors or the corporation); ..."</p>
4	The proposed prohibition would reduce the pool of available resources to meet the capability, capacity and technical challenges of mandatory sustainability assurance thereby risking sustainability assurance quality. With direct assistance the external auditor still retains control over the audit and therefore controls quality.	
5	The proposed prohibition would add unnecessary complexity and confusion for multi-jurisdictional organisation.	Cross-border differences are already navigated for financial report audits. Many jurisdictions (including UK, Germany, France, Spain and Nordic) that prohibit direct assistance for financial report audit are yet to consider the approach of sustainably assurance engagements.
6	Direct assistance is not currently prohibited in ISAE 3000 ¹ or ISAE 3410 ² , and so should not be prohibited for voluntary assurance engagements.	The AUASB did not consider the need for a prohibition. A prohibition would have been consistent with independence principles.

¹ See ISAE 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.

² See ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements*.

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B. Do you think the AUASB should consider the approach in Australian Standards on Sustainability Assurance separately from the approach in ASA 610?

10. Seven of ten written submissions responded to this question. Five of these submissions did not support a different approach so that there is no confusion and potential to undermine the credibility of both the financial and sustainability reports and to avoid a perception of tiers of quality and independence.
11. Two of the seven respondents (IIA and GHD) would like sustainability assurance considered separately from financial report audits for the reasons outlined in the table in paragraph 9 above.

C. Would you like to see the AUASB reconsider the prohibition on the use of internal auditors to provide direct assistance in ASA 610?

12. Six of the ten written submissions responded to this question. Four of these submissions did not support reconsidering the prohibition in ASA 610.
13. Two written submissions (IIA and CA ANZ/CPA) supported reconsidering the prohibition in ASA 610 for the following reasons:
 - (a) The landscape of auditing, corporate governance and assurance has evolved significantly since ASA 610 was issued;
 - (b) Potential unintended consequences for cross-border assurance engagements or group operations that are prepared by a service centre in a country that permits direct assistance given ISA 610 and ISSA 5000 do not prohibit direct assistance; and
 - (c) The safeguards in ISA 610 are designed to ensure that independence is not impaired when using internal auditors to provide direct assistance.

Further work and possible options for future consideration

14. Subject to decisions on the matters in Agenda Papers 4.1, 4.2 and 5, AUASB members may be provided with an Australianised version of ISSA 5000 for approval in January 2025. At the same time, it is proposed to ask AUASB members to decide on an option in relation to direct assistance. That discussion should be better informed by:
 - (a) *Submissions* - Giving members sufficient time to review and consider submissions received to date;
 - (b) *IIA* - Further discussions with the IIA, including on a possible inconsistency of a prohibition with the Act, as well as the possibility of giving the IIA an opportunity to present to the Board. As noted at the 2 December 2024 AUASB meeting the IIA had requested to present at an AUASB meeting before a final decision is made;
 - (c) *Consultation* - Consultation with preparers (e.g. the G100 and AICD) to gather and understand any views; and
 - (d) *APESB* - Further working with APESB staff to understand the APESB's timetable for considering the matter and possible approaches. The APESB is directly responsible for auditor independence standards and will consider the matter in the first half of 2025. As noted at the 2 December 2024 AUASB meeting, the intention was to coordinate with the APESB on the direct assistance matter. This would enable AUASB members to be informed of APESB member views before making a final decision. Paragraph 37 of the AUASB consultation paper on next steps said "... The APESB has yet to consider the use of direct assistance by internal auditors by sustainability assurance practitioners. The AUASB will continue to monitor developments at the APESB on this matter."

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15. Any preliminary AUASB member views on the possible options outlined in the following table may assist in informing a paper for consideration in January 2025. The options may also change with regard to progress on the matters outlined in paragraph 14 above.

	Option A	Option B	Option C
	<ul style="list-style-type: none"> Issue ASSA 5000 without a prohibition on direct assistance pending further work in early 2025 In public communications indicate that the AUASB is minded to prohibit direct assistance subject to further consultation (i.e. with preparers, the IIA and the APESB). 	<ul style="list-style-type: none"> Prohibit direct assistance from 1 January 2025 	<ul style="list-style-type: none"> Temporarily prohibit direct assistance from 1 January 2025 for consistency with ASA 610 The temporary prohibition would be subject to reconsideration when further information is obtained, including the APESB's decision on the matter. The AUASB to consider a future review of the approach for sustainability reporting and financial reporting under ASA 610.
<i>Arguments for</i>			
1	Does not delay the finalisation of ASSA 5000.	Provides certainty to the market.	Consistency with ASA 610 in the short term and the views of many stakeholders on actual and perceived independence.
2	A final decision will be better informed and have regard to the merits of a prohibition and the compelling reasons test.	Consistent with ASA 610 and the views of many stakeholders on actual and perceived independence.	-
3	The APESB is directly responsible for auditor independence standards and will consider the matter in the first half of 2025. It would be best if AUASB members were informed of the views of APESB members when making a final decision.	-	-
4	Allows time to seek the views of preparers (e.g. G100 and AICD) and to engage further with the IIA.	-	-
<i>Arguments against</i>			
1	Does not provide certainty until the first half of 2025.	The decision will not be informed by further outreach allow for completing outreach and being informed by deliberations by APESB members.	It may not be appropriate to make a prohibition contingent on: <ul style="list-style-type: none"> Being informed by further stakeholder outreach and by deliberations by APESB members; and

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	Option A	Option B	Option C
			<ul style="list-style-type: none"> Establishing whether a prohibition would be contrary to s310 and s312 of the Act. The AUASB would need to consider whether the compelling reasons test would be met.
2	While auditors can be informed of a likely prohibition and little assurance will be required for years commencing 1 January 2025, a prohibition would only apply part way through the year commencing 1 January 2025.	-	Creates uncertainty in the market. Lack of clarity as to when the matter would be considered and resolved.

Next steps

- Subject to comments from AUASB members, the Office of the AUASB will progress the matters in paragraph 14 and prepare a paper for consideration by AUASB members in January 2025.

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APPENDIX - SUBMISSIONS

The public written submissions are available at the links in the table below.

Category	Name of Organisation
Audit firms	Deloitte Touche Tohmatsu
	KPMG Australia
	Pitcher Partners
	PricewaterhouseCoopers
Auditor-General	Australasian Council of Auditors General
Investor	Impax Asset Management Hong Kong Limited
Preparer	Confidential Submission
Industry bodies	Chartered Accountants Australia and New Zealand & CPA Australia
Industry bodies	Institute of Internal Auditors-Australia
Non-accountant assurance provider	GHD Pty Ltd

The confidential submission is available on the Board members' area of the AUASB website.



AUASB Agenda Paper

Title:	ISSA 5000 re-exposure	Date:	16 December 2024
Office of AUASB Staff:	Rene Herman	Agenda Item:	4.3

Objective of Agenda Item:

1. The objective of this Agenda Item is to seek a decision from AUASB members as to whether the final ISSA 5000 *General Requirements for Sustainability Assurance Engagements* should be re-exposed in Australia.

Question for AUASB members

Question for AUASB members

Do AUASB members agree that the final ISSA 5000 should not be re-exposed in Australia?

Background

2. The IAASB issued an exposure draft of the proposed ISSA 5000 (ED ISSA 5000) in August 2023. The AUASB issued a consultation paper seeking comments on ED ISSA 5000 in August 2023.
3. After extensive outreach in Australia, the AUASB made [a submission to the IAASB](#) on [ED ISSA 5000](#)¹.
4. The IAASB's ISSA 5000 Task Force identified the areas that generated the most significant feedback from stakeholders on ED ISSA 5000. Changes to the proposed ISSA 5000 were discussed at the March 2024, June and September IAASB meetings.
5. [ISSA 5000](#) was approved by the IAASB at its September 2024 meeting and issued in November 2024 after certification by the Public Interest Oversight Board. The IAASB voted unanimously that the changes made to ISSA 5000 since the exposure draft did not require ISSA 500 to be re-exposed.
6. The objective set out in the IAASB's Project Proposal was to develop a new overarching standard for assurance on sustainability reporting that is:
 - a. Responsive to the public interest need for a timely standard that supports the consistent performance of quality sustainability assurance engagements;
 - b. Suitable across all sustainability topics, information disclosed about those topics, and reporting frameworks; and
 - c. Implementable by all assurance practitioners.
7. ISSA 5000 was developed in a relatively tight timeframe drawing mainly on existing IAASB standards and guidance. It was not reasonable to expect that all matters that could be identified for improving or enhancing the draft ISSA 5000 could be addressed by the IAASB in the standard by September 2024. Necessarily the IAASB's work on assurance over sustainability information will continue in future years, including the development of implementation materials, some of which is expected to be released in January 2025.

¹ Exposure Draft – Proposed ISSA 5000, General Requirements for Sustainability Assurance Engagements

Considerations for re-exposure

8. The AUASB Due Process Framework contains criteria for re-exposure of standards. The criteria and how they apply for the final ISSA 5000 are summarised in the table below:

Paragraph reference	Criterion	Comments	Supports re-exposure?
72(a), 73	<p>The nature and extent of changes to the original proposals in the ED, and whether the substance of the proposed standard has changed.</p> <p>To determine whether proposed standard changed substantially from the ED, the Board considers whether the objectives of the project have changed or if significant new requirements or recommended practices, that would cause a major change in practice, have been introduced. Additionally:</p> <p>a) changes impacting on potential compelling reasons modifications to international standards adopted in Australia, are generally considered to be significant changes;</p> <p>b) where key elements of the exposed standard have been modified in response to comments received on exposure to clarify and enhance understanding, re-exposure is generally not required as long as the Board considers the key elements of the ED have been retained;</p> <p>c) matters relating to the structure or presentation of a standard will typically not warrant re-exposure.</p> <p>The more extensive and/or fundamental the changes to the original ED and current practice are, the more likely it is that the revisions to the ED will have a significant impact on Australian stakeholders and that the proposals therefore should be exposed for a second time.</p>	<p>In relation to these criteria:</p> <ul style="list-style-type: none"> • The objective of the project as outlined in paragraph 7 of this Agenda Paper has not changed. • The changes proposed to requirements and recommended practices since the ISSA 5000 ED are not so significant as to cause a major change in practice. See paragraph 10 of this agenda paper regarding the changes. • The key elements of the ED have been retained. • Respondents to the March 2024 AUASB Consultation Paper – Assurance over Climate and Other Sustainability Information gave overwhelming support for ISSA 5000 to be adopted in Australia for assurance over climate disclosures under the Australian reporting framework, and for voluntary assurance over any other climate and sustainability information. • All of the areas of change proposed by the IAASB were public at the time of the AUASB Consultation Paper. 	No
72(b)	The nature and extent of new substantive issues not considered during the initial consultation;	See above.	No
72(c)	For international equivalent standards, whether there are unique factors in Australia driving re-exposure (ensuring that any re-exposure does not conflict with the		No

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Paragraph reference	Criterion	Comments	Supports re-exposure?
	AUASB's policy of convergence to international standards).		
72(e)	The nature and extent of input from stakeholders and whether: <ol style="list-style-type: none"> i. further consultation with those stakeholders is required; or ii. additional consultation is necessary with key stakeholders who have not had the opportunity to provide feedback on the proposed standard 		No
72(d)	Whether any persuasive or significant new evidence has been identified which may impact recommended changes to the proposed standard.	We are not aware of any such evidence.	No
74	The impact of delaying implementation due to re-exposure against the relative urgency and importance of any additional changes to a proposed standard. The Board considers the additional steps it has taken to consult with stakeholders since issuing the ED and whether using committees or targeted consultation could provide the Board with information to support a decision to finalise a revised draft without re-exposure. The Board considers whether any implementation support, for example, the issuance of additional non-authoritative implementation guidance material or staff FAQs would address concerns.	The Australian equivalent of ISSA 5000 is needed as close to the end of December 2024 as possible for assurance on reporting by Group 1 entities from years commencing 1 January 2025 and voluntary assurance. This would not be achievable if the final ISSA 5000 were to be re-exposed in Australia. It would also delay any guidance supplementing the equivalent of ISSA 5000.	No

9. Stakeholder feedback indicated strong support for ED-ISSA 5000, in particular with reference to the rapid speed of development, the broad global baseline, the underpinning by ethics and quality management and covering the entire sustainability assurance engagement.
10. The main areas of change from ED ISAA 5000 were:

<i>Relevant ethical requirements and quality management standards</i>
<ul style="list-style-type: none"> • An appropriate authority determines whether requirements are at least as demanding as ISQM 1 and the IESBA Code of Ethics.
<i>Entity's 'materiality process' (i.e. identification of required disclosures)</i>
<ul style="list-style-type: none"> • The requirements for the entity's 'materiality process'. • Guidance to clarify concept of materiality.
<i>Practitioners' materiality</i>
<ul style="list-style-type: none"> • Guidance on multiple materialities, performance materiality, qualitative disclosures and aggregation of misstatements.
<i>Group engagements</i>
<ul style="list-style-type: none"> • Requirements for timely and ongoing communication.

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<ul style="list-style-type: none">• Leverage more from ISA 600 (Revised).
<i>Relationship with ISAE 3410</i> <ul style="list-style-type: none">• ISSA 5000 to cover assurance on emissions, replacing ISAE 3410 which will be withdrawn once ISSA 5000 becomes effective for years commencing 15 December 2026.
<i>Limited Assurance work effort</i> <ul style="list-style-type: none">• Risk assessment for limited assurance.• Greater differentiation in work effort between limited and reasonable assurance.• Extent of understanding of the system of internal control for limited assurance.
<i>Engagement Team and using the work of others</i> <ul style="list-style-type: none">• Defined and clarified use of another practitioner.• Leveraged more from ISA 220.
<i>Connectivity with the financial statements</i> <ul style="list-style-type: none">• Requirements and application material in relation to communication with the financial statement auditor.
<i>Estimates and forward-looking information</i> <ul style="list-style-type: none">• Leveraged more from ISA 540 and the EER guidance.

Recommendation

11. It is recommended that ISSA 5000 is not re-exposed in Australia.



AUASB Agenda Paper

Title:	Proposed Sustainability Assurance Phasing – Consideration of options	Date:	16 December 2024
Office of the AUASB:	Anne Waters / Rebecca Mattocks	Agenda Item:	5

Objectives of this Agenda Item

1. This Agenda Item seeks the views of AUASB members on options for particular aspects of the sustainability assurance phasing model and associated matters following feedback received on [Exposure Draft on Proposed Australian Sustainability Assurance Standard ASSA 5010 Timeline for Audits or Reviews of Information in Sustainability Reports Under the Corporations Act 2001 \(ED 02/24\)](#) to assist in developing a final phasing model and revised draft standard for consideration by the AUASB.

Questions for AUASB Members

No.	Question
1	Do AUASB members agree with Recommendations 1 to 10 as outlined in this paper?
2	Do AUASB members have any other comments in relation to the proposed phasing model or standard?
3	Do AUASB members agree with the next steps outlined in the last section of this paper?

Background and Previous Discussions on the Topic

2. The AUASB issued ED 02/24 on 17 September 2024 seeking feedback on a proposed timeline for when information in a Sustainability Report prepared in accordance with Chapter 2M of the *Corporations Act 2001* (the Act) would be subject to audit and/or review. Comments closed on 16 November 2024.
3. The assurance phasing model proposed in ED 02/24 is shown in the table below.



Reporting Year (years commencing)	1st	2nd	3rd	4th*	5th	6th
Group 1	1 January 2025 to 30 June 2026	1 July 2026 to 30 June 2027	1 July 2027 to 30 June 2028	1 July 2028 to 30 June 2029	1 July 2029 to 30 June 2030	1 July 2030 to 30 June 2031
Group 2	1 July 2026 to 30 June 2027	1 July 2027 to 30 June 2028	1 July 2028 to 30 June 2029	1 July 2029 to 30 June 2030	1 July 2030 to 30 June 2031	1 July 2031 to 30 June 2032
Group 3	1 July 2027 to 30 June 2028	1 July 2028 to 30 June 2029	1 July 2029 to 30 June 2030	1 July 2030 to 30 June 2031	1 July 2031 to 30 June 2032	1 July 2032 to 30 June 2033
Governance	Limited	Limited	Limited	Reasonable	Reasonable	Reasonable
Strategy – Risks and Opportunities**	Limited	Limited	Limited	Reasonable	Reasonable	Reasonable
Climate Resilience Assessments / Scenario Analysis	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Transition Plans	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Risk Management	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Scope 1 and 2 Emissions	Limited	Reasonable	Reasonable	Reasonable	Reasonable	Reasonable
Scope 3 Emissions	N/A	Limited	Limited	Reasonable	Reasonable	Reasonable
Climate-related Metrics and Targets	None	Limited	Limited	Reasonable	Reasonable	Reasonable

* Years commencing from 1 July 2030 to 30 June 2031 for Group 3 entities. From that time reasonable assurance is required by the Act for all mandatory climate disclosures.

** The phasing for assurance on statements that there are no material climate-related risks and opportunities would be the same as for ‘Strategy – Risks and Opportunities’.



4. The AUASB received 29 submissions on ED 02/24, including one confidential submission. Feedback was also received through roundtables in Sydney, Melbourne, Perth and virtually. At the 2 December 2024 meeting, AUASB members were provided with an analysis of stakeholder feedback and had an opportunity to provide preliminary views and input on possible amendments to the phasing model in ED 02/24 (see Agenda Paper 4.0 [Public Paper Pack M154](#) and [Agenda Paper 4.1 Excel spreadsheet summarising submissions](#)). This discussion informed this Agenda Paper for the 16 December 2024 AUASB meeting, which also includes options and the arguments in favour of each option.

Assurance Requirements for Year 1

Scope 1 and Scope 2 Emissions

5. ED 02/04 proposed limited assurance over governance disclosures (paragraph 6 of [AASB S2 Climate-related Disclosures](#)). Nearly all respondents supported limited assurance over Scope 1 and Scope 2 emissions. It is suggested that AUASB members consider the options in the table below. The table includes the arguments in favour of each option.

	Option A	Option B
	Limited assurance over Scope 1 and 2 emissions	No assurance over Scope 1 and 2 emissions
I	Consistent with the Government Policy Position Statement - Mandatory climate-related financial disclosures .	No possible preparedness, resource and cost implications.
II	There is already some audit experience in the market through the NGERs regime.	-

6. The following table outlines a recommendation for consideration by AUASB members and other possible actions that would be taken by the Office of the AUASB contingent on that recommendation.

Recommendation 1	Possible associated guidance	Possible matters for example 'auditor's report'
That limited assurance be required over Scope 1 and 2 emission disclosures in Year 1.	FAQs/education material on: <ul style="list-style-type: none"> - Application of materiality where auditor does not give assurance over all climate disclosures. - Guidance on limited vs reasonable assurance for auditors and preparers. 	The auditor's report covers the auditor's responsibilities for review engagements.

Governance Disclosures

7. ED 02/04 proposed limited assurance over governance disclosures (paragraph 6 of [AASB S2 Climate-related Disclosures](#)). Sixteen respondents supported limited assurance over Governance disclosures¹. Of those supportive, two respondents would also support requiring reasonable assurance. It is suggested that AUASB members consider the options in the table below. The table includes the arguments in favour of each option.

¹ Sixteen comment letters – three academics, two non-Big 4 audit firms, four Big 4 audit firms, one consultant, two industry bodies, one investor/user, one preparer, one standard setter and the Auditors General.

	Option A	Option B
	Limited assurance over governance information	No assurance over governance information
I	Some would suggest governance is fundamental and limited assurance over governance disclosures (albeit not on effectiveness of governance) will promote good governance.	No possible preparedness, resource and cost implications.
II	Not unduly onerous.	-

8. The following table provides a recommendation for consideration by AUASB members and other possible actions that would be taken by the Office of the AUASB contingent on that recommendation.

Recommendation 2	Possible associated guidance	Possible matters for example 'auditor's report'
That limited assurance be required over governance disclosures in Year 1.	FAQ that the auditor need only consider whether the disclosures reflect the governance arrangements, not the effectiveness of those arrangements.	-

Strategy (Risks and Opportunities)

9. ED 02/04 proposed limited assurance over disclosures on Strategy (risks and opportunities) (paragraph 9(a) to (d) and 10 to 21 of [AASB S2 Climate-related Disclosures](#)). There was mixed feedback:
- (a) Some supported limited assurance over Strategy (risks and opportunities) as detailed in ED 02/04 because these disclosures are foundational to an entity's strategy and all other disclosures².
 - (b) Some respondents supported covering the disclosure of the risks and opportunities only (paragraph 9(a) of AASB S2 *Climate-related Disclosures*) and not the impact on results and future prospects (paragraphs 9(b) to (d) or 10 to 21 of AASB S2)³;
 - (c) Two respondents supported reasonable assurance over Governance and/or Strategy (risks and opportunities) instead of limited assurance; and
 - (d) Five respondents supported not requiring assurance over any Strategy (risks and opportunities) disclosures⁴.
10. At its meeting on 2 December 2024, some AUASB members indicated a preliminary view in favour of requiring assurance over AASB S2 Paragraph 9(a) and related paragraphs 10 to 12 only. AUASB members requested further analysis on whether it is feasible only to require assurance over paragraph 9(a) of AASB S2 or are those disclosures too interrelated with the disclosures required by paragraphs 13 to 21.
11. AASB S2 paragraphs 9(a) and 10 to 12 say as follows:
- "9 Specifically, an entity shall disclose information to enable users of general purpose financial reports to understand:
 - (a) the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects (see paragraphs 10-12); ...
 - 10 An entity shall disclose information that enables users of general purpose financial reports to understand the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Specifically, the entity shall:

² Eleven comment letters – two academics, one non-Big 4 audit firm, two Big 4 audit firms, one consultant, one industry body, one investor/user, one preparer, one standard setter and the Auditors General.

³ Four comment letters – one industry body, one non-Big 4 audit firm and two Big 4 audit firms.

⁴ Five comment letters – one academic, one industry body, two preparers and one superfund.

-
- (a) describe climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects;
 - (b) explain, for each climate-related risk the entity has identified, whether the entity considers the risk to be a climate-related physical risk or climate-related transition risk;
 - (c) specify, for each climate-related risk and opportunity the entity has identified, over which time horizons—short, medium or long term—the effects of each climate-related risk and opportunity could reasonably be expected to occur; and
 - (d) explain how the entity defines 'short term', 'medium term' and 'long term' and how these definitions are linked to the planning horizons used by the entity for strategic decision-making.
- 11 In identifying the climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects, the entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future conditions.
- 12 [Deleted by the AASB]"
12. The disclosures covered by paragraphs 9(b) to (d) and 13 to 21 concern:
- (a) the effects of the identified risks and opportunities on the entity's business model and its value chain (paragraphs 9(b) and 13);
 - (b) the effects on strategy and decision making, specifically its response and how it will meet any targets (including resources), current and anticipated direct and indirect mitigation and adaptation efforts, and any transition plan and assumptions (paragraphs 9(c) and 14); and
 - (c) the effects of those climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period, and their anticipated effects on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how those climate-related risks and opportunities have been factored into the entity's financial planning (paragraphs 9(d) and 15–21).
13. Only two options were considered at the 2 December 2024 meeting, being limited assurance over the information disclosed under either:
- (a) Paragraphs 9(a) to (d) and 10 to 21; and
 - (b) Paragraphs 9(a) and 10(a) to (d).
14. The second of these two options does not address the interrelationships between the information required by paragraphs 9(a) and 10(a) to (d). In particular, paragraphs 10(c) and (d) on when the effects of risks and opportunities are expected to occur may be informed by the analysis supporting the disclosures in paragraphs 15 to 21.
15. Options include requiring limited assurance over none of the disclosures required by paragraphs 9(a) to (d) and 10 to 21, or requiring limited assurance over subsets of those disclosures. The following table shows arguments in favour of four possible options.



	Option A	Option B	Option C	Option D
	No assurance	Limited assurance – paras 9(a), 10(a), 10(b)	Limited assurance – paras 9(a), 10(a) to (d), 11	Limited assurance – paras 9(a) to (d), 10 to 21
I	Least onerous option.	Less onerous, requires less audit resources and less costly than Options C and D.	Less onerous, requires less audit resources, and less costly than Option D.	-
II	-	Assurance can affect the focus of the entity on the disclosures and the quality of the disclosures.	Assurance can affect the focus of the entity on the disclosures and the quality of the disclosures.	Assurance can affect the focus of the entity on the disclosures and the quality of the disclosures.
III	-	Risks and opportunities are fundamental information that would be of interest to investors. Assurance would enhance confidence in the reliability of the information.	Risks and opportunities are fundamental information that would be of interest to investors. Assurance would enhance confidence in the reliability of the information.	Risks and opportunities are fundamental information that would be of interest to investors. Assurance would enhance confidence in the reliability of the information.
IV	-	-	When risk and opportunities are expected to have an impact would be of interest to investors.	Risks and opportunities, their impact and how they are being addressed may be of more interest to users than emissions metrics.
V	Recognises that entity systems, processes and disclosures may be developing.	Provides some recognition that entity systems, processes and disclosures may be developing.	-	-
VI	It may be difficult to identify which risks and opportunities are material without considering their impacts now and in the future.	It may be difficult to identify which risks and opportunities are material without considering their impacts now and in the future.	-	It may be difficult to identify which risks and opportunities are material without considering their impacts now and in the future.
VII	-	-	-	The impacts of risks and opportunities on current financial position, performance and cash flows may need to be considered when auditing the financial report.

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	Option A	Option B	Option C	Option D
	No assurance	Limited assurance – paras 9(a), 10(a), 10(b)	Limited assurance – paras 9(a), 10(a) to (d), 11	Limited assurance – paras 9(a) to (d), 10 to 21
VIII	It may be difficult to specify the time horizons (subparagraph 9(c) and (d)) without considering the impacts.	It may be difficult to specify the time horizons (subparagraph 9(c) and (d)) without considering the impacts.	-	It may be difficult to specify the time horizons (subparagraph 9(c) and (d)) without considering the impacts.
IX	-	-	It may be possible to give assurance on the effects in the short, medium and long term with reduced work on the disclosures under paragraphs 15 to 21.	-
X	Avoids possible assumption of assurance over certain aspects of interconnected disclosures.	-	-	Avoids possible assumption of assurance over certain aspects of interconnected disclosures.



16. The following table provides a recommendation for consideration by AUASB members and other possible actions that would be taken by the Office of the AUASB contingent on that recommendation.

Recommendation 3	Possible associated guidance	Possible matters for example 'auditor's report'
That limited assurance be required over the risk and opportunity disclosures under subparagraphs 9(a), 10(a) and 10(b) only in Year 1.	None.	The auditor's report covers the auditor's responsibilities for review engagements.

Risk Management Disclosures

17. ED 02/04 did not propose assurance over risk management disclosures. However, some stakeholders suggested requiring limited assurance as auditors will need to consider the entity's processes when providing limited assurance over Strategy (risks and opportunities) regardless⁵.
18. The relevant risk management disclosure requirements in AASB S2 are:
- "24 The objective of climate-related financial disclosures on risk management is to enable users of general purpose financial reports to understand an entity's processes to identify, assess, prioritise and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process.
- 25 To achieve this objective, an entity shall disclose information about:
- (a) the processes and related policies the entity uses to identify, assess, prioritise and monitor climate related risks, including information about:
 - (i) the inputs and parameters the entity uses (for example, information about data sources and the scope of operations covered in the processes);
 - (ii) whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related risks;
 - (iii) how the entity assesses the nature, likelihood and magnitude of the effects of those risks (for example, whether the entity considers qualitative factors, quantitative thresholds or other criteria);
 - (iv) whether and how the entity prioritises climate-related risks relative to other types of risk; how the entity monitors climate-related risks; and
 - (v) whether and how the entity has changed the processes it uses compared with the previous reporting period;
 - (b) the processes the entity uses to identify, assess, prioritise and monitor climate-related opportunities, including information about whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related opportunities; and
 - (c) the extent to which, and how, the processes for identifying, assessing, prioritising and monitoring climate-related risks and opportunities are integrated into and inform the entity's overall risk management process."

19. Any limited assurance should be limited to not more than those risk management disclosures relevant to the risk and opportunity disclosures that are subject to assurance. For example, if Recommendation 3 were adopted, that would be the disclosures on processes to 'identify' risks and opportunities and not those processes to 'assess, prioritise and monitor' risks and opportunities.

20. It is suggested that AUASB members consider the options in the table below. The table includes the arguments in favour of each option.

⁵ Three comment letters – one Big 4 audit firm and two non-Big 4 audit firms. This was also suggested by several attendees at roundtables

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	Option A	Option B
	Limited assurance over risk management disclosures related to identifying risk and opportunities	No assurance over risk management disclosures
I	The risk management is important to the quality of the risk and opportunity disclosures.	It may be confusing to cover some and not all risk management disclosures.
II	Auditors will be performing work on the processes to identify risks and opportunities as part of their work on the risk and opportunity disclosures.	It may be difficult to separate the risk management on identifying risk and opportunities from risk management relating to assessing and prioritizing risks, which may result in additional work.

21. The following table provides a recommendation for consideration by AUASB members and other possible actions that would be taken by the Office of the AUASB contingent on that recommendation.

Recommendation 4	Possible associated guidance	Possible matters for example 'auditor's report'
No limited assurance be required over risk management disclosures in Year 1.	None.	None.

How to approach two first years for Group 1 entities with December year ends

22. Under the model proposed in ED 02/24, Group 1 entities with reporting periods commencing between 1 January and 30 June 2025 have two first years of reporting (e.g. for entities with 31 December year ends – the years ending 31 December 2025 and 31 December 2026). No stakeholders provided any comments on this.
23. The AUASB could consider reduced requirements for Group 1 entities with years commencing from 1 January to 30 June 2025. The assurance requirements for years commencing from 1 January to 30 June 2026 could remain consistent with the first year of reporting for Group 1 entities with years commencing between 1 July and 31 December 2025.
24. For years commencing 1 January to 30 June 2025, it is suggested that AUASB members consider the options in the table below. The table includes the arguments in favour of each option.

	Option A	Option B	Option C
	No assurance	Limited assurance – limited assurance only on Scope 1 and 2 emissions (see also table in paragraph 5 above)	Limited assurance – same as Year 1 for entities with years commencing 1 July to 31 December 2025
I	Least onerous option.	Less onerous, requires less audit resources and less costly than Option C.	-
II	Recognises that entities and auditors have the least time to prepare for reporting and assurance.	Consistent with the Government Policy Position Statement - Mandatory climate-related financial disclosures .	-
III	-	There is already some audit experience in the market through the NGERS regime.	Entities and auditors may have been preparing on the assumption that there would be assurance consistent with ED 02/24.
IV	-	Assurance can affect the focus of the entity on the disclosures	Assurance can affect the focus of the entity on the disclosures

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	Option A	Option B	Option C
	No assurance	Limited assurance – limited assurance only on Scope 1 and 2 emissions (see also table in paragraph 5 above)	Limited assurance – same as Year 1 for entities with years commencing 1 July to 31 December 2025
		and the quality of the disclosures.	and the quality of the disclosures.
V	Avoids any possible questions about retrospective application.	-	-

25. The following table provides a recommendation for consideration by AUASB members and other possible actions that would be taken by the Office of the AUASB contingent on that recommendation.

Recommendation 5	Possible associated guidance	Possible matters for example 'auditor's report'
For years commencing between 1 January 2025 and 30 June 2025, there should only be limited assurance on Scope 1 and 2 emissions.	FAQs/education material on: <ul style="list-style-type: none"> - Application of materiality where auditor does not give assurance over all climate disclosures. - Guidance on limited vs reasonable assurance for auditors and preparers. 	Explanation of limited vs reasonable assurance.

Assurance Requirements for Years 2 and 3

26. While feedback from larger audit firms generally supported the approach for Years 2 and 3, preparers and some smaller audit firms largely supported reducing the assurance requirements for Years 2 and 3 due to the significant incremental uplift in capacity required from the first year.
27. Some of the suggestions were to:
- (a) Delay requiring assurance over more subjective disclosures such as climate resilience/scenario analysis and transition plans;
 - (b) Delay requiring reasonable assurance over Scope 1 and 2 emissions to give preparers and auditors more time to prepare⁶. In addition, requiring reasonable assurance may result in some smaller entities (and their auditors) receiving requests for emissions data before they are required to report this information themselves;
 - (c) Delay requiring limited assurance over Scope 3 emissions, noting that this will be the first year of reporting this information, and there is uncertainty about the availability of data and assurance thereon⁷; and
 - (d) Except for disclosures subject to no assurance, keep assurance levels across disclosures constant in any given year for simplicity and understandability of the assurance report.

Reasonable assurance over Scope 1 and 2 emissions

28. It is suggested that AUASB members consider the options in the table below. The table includes the arguments in favour of each option.

⁶ Five comment letters – one industry body, one non-Big 4 audit firm, two preparers and the Auditors General.

⁷ Nine comment letters – three non-Big 4 audit firms, four preparers, one industry body and the Auditors General. Most of these consider that assurance over scope 3 greenhouse gas emissions should be delayed until at least year 3 or 4, with one non-Big 4 audit firm in favour of delaying limited assurance until the fifth year of reporting.

	Option A	Option B	Option C
	Limited assurance for Years 2 and 3	Limited assurance for Year 2 and reasonable for Year 3	Reasonable assurance for Years 2 and 3
I	Least onerous option.	Less onerous, requires less audit resources and less costly than Option C.	-
II	Consistent assurance over all disclosures in Years 2 and 3, which simplifies the audit report.	Consistent assurance over all disclosures in Year 2, which simplifies the audit report.	-
III	-	There is already some audit experience in the market through the NGERS regime.	There is already some audit experience in the market through the NGERS regime.
IV	-	Assurance can affect the focus of the entity on the disclosures and the quality of the disclosures.	Assurance can affect the focus of the entity on the disclosures and the quality of the disclosures.
V	-	Reduces the uplift in assurance in moving to reasonable assurance over all disclosures in Year 4.	Reduces the uplift in assurance in moving to reasonable assurance over all disclosures in Year 4.

29. The following table provides a recommendation for consideration by AUASB members and other possible actions that would be taken by the Office of the AUASB contingent on that recommendation.

Recommendation 6	Possible associated guidance	Possible matters for example 'auditor's report'
Scope 1 and 2 emission disclosures be subject to limited assurance for Year 2 and reasonable assurance for Year 3.	Guidance on limited vs reasonable assurance for auditors and preparers.	Explanation of limited vs reasonable assurance.

Assurance over Scope 3 emissions

30. Some background material on Scope 3 emissions appears in Appendix A to this paper.

31. It is suggested that AUASB members consider the options in the table below. The table includes the arguments in favour of each option.

	Option A	Option B	Option C
	No assurance for Years 2 and 3	No assurance for Year 2 and limited assurance in Year 3	Limited assurance for Years 2 and 3
I	Least onerous option.	Less onerous, requires less audit resources and less costly than Option C.	-
II	Year 2 is the first year of reporting Scope 3 emissions. Entities may not be prepared for assurance. There may be data challenges and greater	Year 2 is the first year of reporting Scope 3 emissions. Entities may not be prepared for assurance. There may be data challenges and greater	-

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	Option A	Option B	Option C
	No assurance for Years 2 and 3	No assurance for Year 2 and limited assurance in Year 3	Limited assurance for Years 2 and 3
	prospects of modified opinions in the earlier years.	prospects of modified opinions in the earlier years.	
III	-	Scope 3 emissions may be much larger than Scope 1 and 2 emissions.	Scope 3 emissions may be much larger than Scope 1 and 2 emissions.
IV	-	Scope 3 emissions may be useful information affecting other disclosures (e.g. strategy).	Scope 3 emissions may be useful information affecting other disclosures (e.g. strategy).
III	-	Consistent assurance over all disclosures in Year 3, which simplifies the audit report.	Consistent assurance over all disclosures in Years 2 and 3, which simplifies the audit report.
IV	-	Assurance can affect the focus of the entity on the disclosures and the quality of the disclosures.	Assurance can affect the focus of the entity on the disclosures and the quality of the disclosures.
V	-	Reduces the uplift in assurance in moving to reasonable assurance over all disclosures in Year 4.	Reduces the uplift in assurance in moving to reasonable assurance over all disclosures in Year 4.

32. The following table provides a recommendation for consideration by AUASB members and other possible actions that would be taken by the Office of the AUASB contingent on that recommendation.

Recommendation 7	Possible associated guidance	Possible matters for example 'auditor's report'
Scope 3 emission disclosures be subject to no assurance for Year 2 and limited assurance for Year 3.	Guidance on: - Challenges for auditors in providing assurance over Scope 3 emissions - Limited vs reasonable assurance for auditors and preparers.	Explanation of limited vs reasonable assurance.

Assurance Requirements for Year 4

33. The feedback received for the fourth year of reporting was:

- (a) Sixteen of the twenty-nine respondents supported requiring reasonable assurance over all disclosures from the fourth year of reporting⁸. There was strong support for consistent phasing across Groups 1, 2 and 3.
- (b) Other respondents raised concerns over:
 - (i) Reasonable assurance over Scope 3 emission disclosures will be difficult given their nature and reliance on third parties to provide information⁹;
 - (ii) Four years may not be sufficient to build capacity, and more time may be needed¹⁰;

⁸ Sixteen comment letters indicated support for phasing from limited assurance to reasonable assurance by year 4, including two preparers, three academics, one superfund, one standard setter, four Big 4 audit firms, two non-Big 4 audit firms, one industry body, one investor/user and Auditors General. Three comment letters disagreed with the proposal, including one academic and two superfund representatives.

⁹ Three comment letters – two preparers and one non-Big 4 audit firm.

¹⁰ Two comment letters – two preparers.

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- (iii) Some respondents comment that whilst Group 1 may be ready, there is concern about smaller entities and audit firms¹¹;
 - (iv) There may be a high level of modified reports, which may impact market confidence;
 - (v) Cost may be significant¹²; and
 - (vi) Strong support for consistent models across Groups 1, 2 and 3¹³.
- (c) Four respondents called for the AUASB to reconsider the proposed end state of assurance in the legislation from 2030/1¹⁴, noting that it is too ambitious and does not align with international arrangements.

34. It is suggested that AUASB members consider the options in the table below. The table includes the arguments in favour of each option.

	Option A	Option B
	Limited assurance for Year 4 for Group 1 and 2 entities	Reasonable assurance from Year 4 for all entities
I	Less onerous, requires less audit resources and less costly than Option B. There may not be sufficient preparedness.	-
II	-	Enhances user confidence in the reliability of information in the sustainability report
III		The level of assurance can affect the focus of the entity on the disclosures and the quality of the disclosures.
IV	-	There are interconnections with assumptions used for the financial report, and there will be consistent assurance across the sustainability report and financial report.
V	-	Gives consistent phasing for all three Groups. The Act requires reasonable assurance over all disclosures for 2030/1 which is Year 4 for Group 3 entities.
VI	-	Experience with reasonable assurance for Groups 1 and 2, may assist with audits for Group 3 entities.
VII	Although reasonable assurance is planned from years ending 31 December 2028 in Europe, moving ahead of other jurisdictions which may create challenges in obtaining information and assurance from value chains and components.	-

35. The following table provides a recommendation for consideration by AUASB members and other possible actions that would be taken by the Office of the AUASB contingent on that recommendation.

Recommendation 8	Possible associated guidance	Possible matters for example 'auditor's report'
All disclosures be subject to reasonable assurance from Year 4.	None specific.	None specific.

¹¹ Two comment letters – two industry bodies.

¹² One comment letter – superfund.

¹³ Thirteen comment letters – one academic, four Big 4 audit firms, two non-Big 4 audit firms, Auditors General, two industry bodies, one investor/user, one preparer and one standard setter.

¹⁴ This view was expressed in four comment letters, including three superfund representatives and one preparer.

Ongoing Review

36. It is proposed to reiterate in the explanatory material to the final phasing standard that:
 - (a) The AUASB will monitor implementation experience on an ongoing basis (see also paragraph 27 of [AUASB Consultation Paper Assurance Over Climate and Other Sustainability Information](#), March 2024); and
 - (b) Under section 1707G of the Act, the Minister must cause a review of the operation of the legislation to be conducted as soon as practical after 1 July 2028.
37. The AUASB could consider amending the phasing requirements in ASSA 5010, if necessary. However, the expectation should be that auditors, experts and entities will work on the basis of the phasing in the standard.
38. While an option would be not to mandate reasonable assurance until after we can observe the market in the first three years of reporting and limited assurance:
 - (a) that may not provide sufficient certainty for auditors and experts in planning resources and capability; and
 - (b) For Group 3, reasonable assurance would commence 2030/1 as mandated in legislation. The first year of phasing proposed for Groups 1 and 2 is consistent with feedback from most respondents that the phasing should be consistent across Groups 1, 2 and 3.

Modified liability regime and directors' declaration

Modified liability regime

39. Except for actions, suits or proceedings by ASIC or where a matter is criminal in nature, s1707D of the Act provides that no action, suit or proceeding can be taken against a person (including a company, directors and auditors) in relation to:
 - (a) a protected statement; or
 - (b) a statement required under a Commonwealth law that is the same as a protected statement or only differs by containing updates or corrections.
41. A statement is a protected statement if it is made in a sustainability report (or related auditor's report) for the purpose of complying with AASB S2 and:
 - (a) for years commencing from 1 January 2025 to 31 December 2027 is about any of the following:
 - (i) scope 3 emissions (including financed emissions);
 - (ii) scenario analysis under AASB S2; and
 - (iii) a transition plan under AASB S2; OR
 - (b) for years commencing from 1 January 2025 to 31 December 2025 relates to climate and, at the time it is made, is about the future.
42. The Modified Liability Regime ends before the first period in which reasonable assurance would be required over all disclosures for Group 1. The regime should not affect the phasing because the entity and its directors still have responsibility for the sustainability report and corresponding liability relief applies to the auditor.

Directors' declaration

43. Under s1707C of the Act the directors' declaration in the sustainability report for years commencing 1 January 2025 to 31 December 2027 is only required to state whether, in the directors' opinion, the entity has taken reasonable steps to ensure that the sustainability report complies with the Act (including AASB S2). This is consistent with the 'reasonable steps' requirement for directors in s344(1) of the Act. After this time, directors will be required to state whether, in their opinion, the disclosures are in accordance with the Act (including AASB S2).
44. The 'reasonable steps' criterion should not affect the proposed assurance phasing. The entity and directors still have responsibility in relation to the sustainability report complying with the Act. Reasonable assurance is not required over all disclosures until years commencing 1 July 2028 for Group 1 entities.

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45. Under ED 02/24 the directors' declaration would be subject to assurance when all disclosures are subject to assurance. It would be problematic to require assurance over the statement about compliance in the directors' declaration with all of the reporting requirements where the auditor is not otherwise required to provide assurance on certain disclosures. Matters for consideration in this regard include:
- (a) In Year 1 only some disclosures would be subject to assurance and ED 02/04 would not require the directors' declaration to be subject to assurance.
 - (b) If Scope 3 emissions were not subject to assurance in the second year of reporting, the directors' declaration should not be subject to assurance.
 - (c) Where assurance is required over the directors' declaration, the lowest level of assurance applying to the other required disclosures should apply.
46. The following table provides a recommendation for consideration by AUASB members and other possible actions that would be taken by the Office of the AUASB contingent on that recommendation.

Recommendation 9	Possible associated guidance	Possible matters for example 'auditor's report'
There should be no changes to the proposed phasing model in ED 02/24 for the Modified Liability Regime or in connection with the directors' declaration.	None specific.	None specific.

47. A revised assurance phasing model, taking into account recommendations 1-9, is shown in Appendix B to this paper.

Other matters

48. As noted in the Agenda Paper 4.0 for the 2 December 2024 meeting, feedback supported the approach in ED 02/24 on the following matters. No changes are proposed on the approach to:
- (a) No material risks or opportunities;
 - (b) Groups 1, 2 and 3 commence with the same settings and progress at the same pace;
 - (c) When entities enter a Group after the first year for that Group; and
 - (d) Comparatives.

Retrospectivity

Background

49. The proposed phasing standard will not be made until after the start of the first reporting year for Group 1 entities (i.e. 1 January 2025). It is possible for the AUASB to make an auditing standard after the commencement of the financial year to which the standard applies but we still need to consider any retrospective impact on rights and obligations.
50. There is nothing in the Australian Constitution to prevent the making of laws that operate so as to alter rights and obligations retrospectively, including imposing any penalties retrospectively.
51. In addition, s336(3) of the Act allows auditing standards to apply to financial or sustainability reports "in relation to periods ending after the commencement of the standard" or "periods ending, or starting, on a later date specified in the standard". There is no requirement for a standard to only apply to periods that begin after the standard is made.
52. Audit work typically does not need to be performed from the start of the year. Typically work can be performed after the date within a year that an auditing standard is made. Audit work generally does not commence in the first months of the financial year because audit work for the prior year's reporting is still underway. There are also instances where an auditor is appointed part way through the financial year.

53. Even so, it is best to avoid making auditing standards after the commencement of the financial year to which they first apply. It is important to provide certainty to auditors, preparers and users, and assist in planning and resourcing the audit.
54. The Senate Scrutiny of Delegated Legislation Committee may raise questions where a standard is made after the start of the year to which it applies, particularly if there isn't an adequate explanation on the retrospectivity question in the explanatory statement to a standard.

Possible implications

55. It would be best to issue ASSA 5010 before 1 January 2025 to provide certainty to auditors and others.
56. If ASSA 5010 is not issued before 1 January 2025, we proposed to:
- (a) Publish any decision on phasing in a Newsletter, pending the issue of a formal instrument; or
 - (b) If there is a delay in settling on the phasing model for all years, finalise the position for years commencing 1 January to 30 June 2025 and issue a standard, pending settling the position for subsequent reporting periods and issuing a standard.

Issuing ASSA 5010 separately from ASSA 5000

57. It would be best for the AUASB to approve and issue ASSA 5000 and ASSA 5010 simultaneously, preferably as a single standard.
58. Subsection 336(3) of the Act allows an auditing standard to be applicable from specified reporting periods. On one view, ASSA 5010 could specify reporting periods as part of an auditing standard dealing with audit or review procedures, not in isolation.
59. It may be that s1707E(3) of the Act could be read as:
- (a) Allowing the phasing to be issued as an 'auditing standard' in isolation (s1707E(3)(a) and (b)); or
 - (b) Requiring the phasing to only be included in a document (or related documents issued together) that include standards for an audit or review (s1707E(3)(c)).
60. The table below outlines possible approaches to address the possibility that ASSA 5010 could not be issued in isolation the arguments in favour of each approach.

	Option A	Option B
	Include the phasing as operative provisions in the Australian equivalent of ISSA 5000	Issue the Australian equivalent of ISSA 5000 at the same time as ASSA 5010 with its operative provisions being as specified in ASSA 5010
I	Auditors only need to refer to one standard.	Not including the phasing in the Australian equivalent of ISSA 5000 would make it appear more consistent with ISSA 5000 and less text would need to be removed when the phasing ends in 2030/1.

61. The following table provides a recommendation on balance for consideration by AUASB members and other possible actions that would be taken by the Office of the AUASB contingent on that recommendation.

Recommendation 10	Possible associated guidance	Possible matters for example 'auditor's report'
The phasing should be included as operative provisions in the Australian equivalent of ISSA 5000. The phasing model to be	None specific.	None specific.

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Recommendation 10	Possible associated guidance	Possible matters for example 'auditor's report'
published in a newsletter as soon as possible.		

Regulatory Impact Assessment (RIA)

62. We are corresponding with the Office of Impact Analysis as to whether an RIA is required or whether we can rely on Treasury's September 2023 [Policy Impact Analysis - Climate-related financial disclosures](#), which covers assurance phasing and was approved by Cabinet.

Next Steps

63. Subject to the AUASB approving a phasing model and deciding to issue an Australian equivalent of ISSA 5000, the next steps are:
- (a) The final phasing model will be communicated through a newsletter;
 - (b) The need for an RIA will be determined, and an RIA prepared if required;
 - (c) The phasing model will be included as operative provisions in the Australian equivalent of ASSA 5000 and a standard circulated for approval out of session;
 - (d) An explanatory statement will be prepared for the Federal Register of Legislative Instruments;
 - (e) A media release will announce the issue of the final standard;
 - (f) Subject to the nature of any IAASB guidance, guidance will continue to be developed to assist auditors, preparers and others in understanding the nature and extent of work required by the auditor on the disclosures in the Sustainability Report for limited assurance and reasonable assurance; and
 - (g) There will be ongoing monitoring of the preparedness of auditors, their experts and reporting entities, as well as any emerging assurance issues requiring guidance. This monitoring would be noted in explanatory statement.



Appendix A – Scope 3 Greenhouse Gas Emissions

Background

1. At the 2 December 2024 meeting, the Office of the AUASB was asked to prepare some educative material on Scope 3 emissions for AUASB members to better understand their importance and the need to report and measure this information, to inform the assurance phasing model.
2. This appendix outlines:
 - (a) how are Scope 3 emissions defined in AASB S2;
 - (b) what are the reporting requirements for Scope 3 emissions in AASB S2;
 - (c) how the reporting requirements interplay with the Greenhouse Gas Protocol; and
 - (d) what challenges the auditors of Scope 3 emissions will need to consider when providing limited or reasonable assurance over these emissions.

How are Scope 3 Emissions defined in AASB S2?

3. AASB S2 defines ‘Scope 3 greenhouse gas emissions’ as:

“**Indirect greenhouse gas emissions** (not included in Scope 2 greenhouse gas emissions) that occur in the value chain of an entity, including both **upstream** and **downstream emissions**. Scope 3 greenhouse gas emissions include the Scope 3 categories in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).”
4. There are 15 categories of Scope 3 emissions under the *Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011)*:
 1. purchased goods and services;
 2. capital goods;
 3. fuel- and energy-related activities not included in Scope 1 greenhouse gas emissions or Scope 2 greenhouse gas emissions;
 4. upstream transportation and distribution;
 5. waste generated in operations;
 6. business travel;
 7. employee commuting;
 8. upstream leased assets;
 9. downstream transportation and distribution;
 10. processing of sold products;
 11. use of sold products;
 12. end-of-life treatment of sold products;
 13. downstream leased assets;
 14. franchises; and
 15. investments.

What are the reporting requirements for Scope 3 emissions in AASB S2?

“Climate-related metrics

An entity shall disclose information relevant to the cross-industry metric categories of:

- (a) greenhouse gases—the entity shall:
 - (i) disclose its absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tonnes of CO₂ equivalent (see paragraphs B19–B22), classified as:
 - (1) Scope 1 greenhouse gas emissions;
 - (2) Scope 2 greenhouse gas emissions; and
 - (3) Scope 3 greenhouse gas emissions;
 - (ii) measure its greenhouse gas emissions in accordance with the Greenhouse Gas **Protocol: A Corporate Accounting and Reporting Standard (2004) unless required by a jurisdictional authority or an exchange on which the entity is listed to use a different method for measuring its greenhouse gas emissions** (see paragraphs B23–B25);
 - (iii) disclose the approach it uses to measure its greenhouse gas emissions (see paragraphs B26–B29) including:
 - (1) the measurement approach, inputs and assumptions the entity uses to measure its greenhouse gas emissions;
 - (2) the reason why the entity has chosen the measurement approach, inputs and assumptions it uses to measure its greenhouse gas emissions; and
 - (3) any changes the entity made to the measurement approach, inputs and assumptions during the reporting period and the reasons for those changes;
 - (vi) for **Scope 3 greenhouse gas emissions** disclosed in accordance with paragraph 29(a)(i)(3), and with reference to paragraphs B32–B57, disclose:
 - (1) the **categories included** within the entity’s measure of Scope 3 greenhouse gas emissions, in accordance with the Scope 3 categories described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011); and
 - (2) additional information about the entity’s Category 15 greenhouse gas emissions or those associated with its investments (financed emissions), if the entity’s activities include asset management, commercial banking or insurance (see paragraphs B58–B63)”

How do mandatory reporting requirements interplay with the Greenhouse Gas Protocol?

- 5. Australian entities must measure greenhouse gas emissions in accordance with the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004)* unless required by a jurisdictional authority or an exchange on which the entity is listed to use a different method for measuring its greenhouse gas emissions.
- 6. The **categories** included within the entity’s measure of **Scope 3 greenhouse gas emissions**, must be in accordance with the Scope 3 categories described in the *Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011)*.

What are the assurance challenges for Scope 3 emissions?

- 7. Challenges for the auditor in providing assurance over material Scope 3 emissions may include:
 - (a) the ability to obtain accurate, consistent and complete data;

- (b) the level of precision required and the use of models to estimate emissions;
 - (c) adequacy of disclosures on uncertainties and any key assumptions;
 - (d) emission factors best represent emission sources;
 - (e) determining whether the work is adequate for the practitioner's purposes, particularly when there are no contractual rights to access information;
 - (f) whether the information obtained through value chains is relevant to the goods or services of the audited entity;
 - (g) whether the procedures performed and results outlined in any assurance report received are appropriate for the auditor's purposes;
 - (h) competence and expertise of the assurance provider and any relevant quality management requirements;
 - (i) knowledge of sustainability subject matters and underlying context;
 - (j) unaligned reporting timeframes of entities up/down stream;
 - (k) challenges in obtaining reliable information in early years may represent limitations on scope;
 - (l) information on Australian reporting basis not available for foreign components and foreign entities in value chain;
 - (m) knowledge of Australian reporting requirements of component auditors;
 - (n) the appropriateness of any applicable assurance standards used by foreign assurance providers on information through value chains; and
 - (o) possible limitations due to confidentiality requirements.
8. Auditors should encourage audited entities to consider information and assurance requirements when entering into arrangements with significant new suppliers and customers.
9. A combination of methods for calculating Scope 3 emissions can be used, as shown in the following extract from the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).

To prioritize scope 3 activities, companies may also assess whether any GHG- or energy-intensive materials or activities appear in the value chain of purchased and sold products.

7.2 Overview of quantification methods and data types

There are two main methods to quantify emissions: direct measurement and calculation (see table 7.1). Each requires different types of data.

In practice, calculation will be used most often to quantify scope 3 emissions, which requires the use of two types of data: activity data and emission factors.

Activity data

Activity data is a quantitative measure of a level of activity that results in GHG emissions. Examples of activity data are provided in table 7.2.

Emission factors

An emission factor is a factor that converts activity data into GHG emissions data. Examples of emission factors are provided in table 7.2.

Companies are required to report a description of the types and sources of activity data and emission factors used to calculate the inventory (see chapter 11).

Table [7.1] Quantification methods

Quantification method	Description	Relevant data types
Direct measurement	Quantification of GHG emissions using direct monitoring, mass balance or stoichiometry GHG = Emissions Data x GWP	Direct emissions data
Calculation	Quantification of GHG emissions by multiplying activity data by an emission factor GHG = Activity Data x Emission Factor x GWP	Activity data Emission factors

Table [7.2] Examples of activity data and emission factors

Examples of activity data	Examples of emission factors
<ul style="list-style-type: none"> Liters of fuel consumed Kilowatt-hours of electricity consumed Kilograms of material consumed Kilometers of distance traveled Hours of time operated Square meters of area occupied Kilograms of waste generated Kilograms of product sold Quantity of money spent 	<ul style="list-style-type: none"> kg CO₂ emitted per liter of fuel consumed kg CO₂ emitted per kWh of electricity consumed kg PFC emitted per kg of material consumed t CO₂ emitted per kilometer traveled kg SF₆ emitted per hour of time operated g N₂O emitted per square meter of area g CH₄ emitted per kg of waste generated kg HFC emitted per kg of product sold kg CO₂ emitted per unit of currency spent

[68] Corporate Value Chain (Scope 3) Accounting and Reporting Standard



Appendix B – Revised Proposed Assurance Phasing Model

Reporting Year (years commencing)	1st*	1st	2nd	3rd	4th**	5th	6th
Group 1	1 January 2025 to 30 June 2025	1 July 2025 to 30 June 2026 ¹⁵	1 July 2026 to 30 June 2027	1 July 2027 to 30 June 2028	1 July 2028 to 30 June 2029	1 July 2029 to 30 June 2030	1 July 2030 to 30 June 2031
Group 2		1 July 2026 to 30 June 2027	1 July 2027 to 30 June 2028	1 July 2028 to 30 June 2029	1 July 2029 to 30 June 2030	1 July 2030 to 30 June 2031	1 July 2031 to 30 June 2032
Group 3		1 July 2027 to 30 June 2028	1 July 2028 to 30 June 2029	1 July 2029 to 30 June 2030	1 July 2030 to 30 June 2031	1 July 2031 to 30 June 2032	1 July 2032 to 30 June 2033
Governance	None (Ref: Rec 5)	Limited (Ref: Rec 2)	Limited	Limited	Reasonable (Ref: Rec 8)	Reasonable	Reasonable
Strategy – Risks and Opportunities ***	None (Ref: Rec 5)	Limited**** (Ref: Rec 3)	Limited	Limited	Reasonable (Ref: Rec 8)	Reasonable	Reasonable
Climate Resilience Assessments / Scenario Analysis	None	None	Limited	Limited	Reasonable (Ref: Rec 8)	Reasonable	Reasonable
Transition Plans	None	None	Limited	Limited	Reasonable (Ref: Rec 8)	Reasonable	Reasonable
Risk Management	None	None (Ref: Rec 4)	Limited	Limited	Reasonable (Ref: Rec 8)	Reasonable	Reasonable
Scope 1 and 2 Emissions	Limited (Ref: Rec 5)	Limited (Ref: Rec 1)	Limited (Ref: Rec 6)	Reasonable (Ref: Rec 6)	Reasonable (Ref: Rec 8)	Reasonable	Reasonable
Scope 3 Emissions	N/A	N/A	None (Ref: Rec 7)	Limited (Ref: Rec 7)	Reasonable (Ref: Rec 8)	Reasonable	Reasonable
Climate-related Metrics and Targets	None	None	Limited	Limited	Reasonable (Ref: Rec 8)	Reasonable	Reasonable

* Group 1 entities with years ending 31 December, 2025.

** Years commencing from 1 July 2030 to 30 June 2031 for Group 3 entities. From that time reasonable assurance is required by the Act for all mandatory climate disclosures.

*** The phasing for assurance on statements that there are no material climate-related risks and opportunities would be the same as for 'Strategy – Risks and Opportunities'.

**** Subparagraphs 9(a), 10(a) and 10(b) of AASB S2 Climate-related Disclosures.

¹⁵ This includes Group 1 entities with financial years ending 31 December 2026.



AUASB Agenda Paper

Title:	ASAE 3500 <i>Performance Engagements</i> (Revised) — Approval of Final Standard	Date:	16 Dec 2024
Project Advisory Group Chair:	Julie Crisp		
Office of the AUASB Staff:	Johanna Foyster	Agenda Item:	6

Objective of this Agenda Paper

1. The objective of this Agenda Item is to seek approval from AUASB members to issue the final revised ASAE 3500 *Performance Engagements* [ASAE 3500 (Revised)].

Questions for AUASB Members

Question No.	Question for the Board
Question 1	Do AUASB members have any comments on, or questions about, the final ASAE 3500 (Revised)? See Agenda Item 6.1
Question 2	Do AUASB members have any comments on, or questions about, the draft Basis for Conclusions document? See Agenda Item 6.2
Question 3	Do AUASB members approve, by way of formal vote, the issuance of the final ASAE 3500 (Revised)?

Background and Previous Discussions on Topic

2. At its 23 May 2024 meeting, the AUASB considered and approved [Exposure Draft ED 01/24 Proposed Revised Standard on Assurance Engagements ASAE 3500 Performance Engagements](#) (ED 01/24) — see Agenda Item 6 of the [May 2024 meeting papers](#). ED 01/24 was formally issued on 29 May 2024, for a 60-day public comment period that closed on 30 July 2024. The [Explanatory Memorandum](#) that accompanied the public release of ED 01/24 provides background on the project and an explanation of the exposure draft.

Issues Raised by Respondents on Exposure

3. The AUASB developed the proposed revised ASAE 3500 in consultation with a Project Advisory Group (PAG) consisting of 9 members representing each public sector audit office in Australia. Individual audit offices have provided input and feedback on the development of ED 01/24 through the PAG.
4. The AUASB received [two submissions](#) following the public exposure of ED 01/24, from the Australasian Council of Auditors-General (ACAG) (Australian members) and the Tasmanian Audit Office.
5. Submissions were fully supportive of the revisions to ASAE 3500 as proposed in ED 01/24. Respondents did not raise any issues with the proposed revised Standard.
6. The professional accounting bodies did not provide formal submissions on the basis that their perspectives on the topic of performance engagements are heavily influenced by their

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members in the Public Sector who participated in the development of ED 01/24 through the PAG. Members did not raise issues with ED 01/24.

Finalisation of Revised Standard

7. The Office of the AUASB has not made any further changes to the version of the proposed Standard that was publicly exposed. The standard would apply for engagements commencing on or after 1 April 2025 with early application permitted.
8. Office of the AUASB staff have prepared a draft Basis for Conclusions document to provide background on, and the rationale for, the development and approval of the revised Standard by the AUASB — see Agenda Item 6.2.
9. The Office of Impact Analysis (OIA) has determined that a detailed impact analysis of the revised Standard is not required under the Australian Government's Policy Impact Analysis Framework, on the basis that the OIA considered that the regulatory impacts of the proposed revised Standard are likely to be minor and that the revised Standard is likely to create minimal additional regulatory costs.

Next steps/Way Forward

10. Subject to AUASB approval of the final revised ASAE 3500:
 - (a) Members of the PAG will be informed and updates provided through the AUASB's normal communication channels;
 - (b) The *Basis for Conclusions* to be approved by the Chair; and
 - (c) The process to finalise and post the revised standard on the website will be completed.

Materials Presented

Agenda Item	Description
6.1	Final Standard — ASAE 3500 <i>Performance Engagements</i> (Revised)
6.2	Draft <i>Basis for Conclusions</i>

ASAE 3500
(December 2024)

Standard on Assurance Engagements

ASAE 3500

Performance Engagements (Revised)

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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This Standard on Assurance Engagements is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au/

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PREFACE

Reasons for Issuing ASAE 3500 (Revised)

The AUASB issues Standard on Assurance Engagements ASAE 3500 *Performance Engagements* (Revised) pursuant to the requirements of the legislative provisions explained below.

The AUASB is an independent non-corporate Commonwealth entity of the Australian Government, established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 227B(1)(b) of the ASIC Act, the AUASB may formulate assurance standards for purposes other than the corporations legislation.

As required under the AUASB's *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications*, the AUASB has undertaken a Post Implementation Review of the existing Standard on Assurance Engagements ASAE 3500 *Performance Engagements* (revised October 2017, updated December 2022), to evaluate the effectiveness and efficiency of the Standard's implementation and application in practice.

The AUASB has undertaken a narrow in scope revision of the existing Standard to address the key findings from the AUASB's Post Implementation Review of the Standard.

Main Features

ASAE 3500 establishes requirements and provides application and other explanatory material regarding the conduct of, and reporting on, a direct performance engagement.

Revisions to the Standard include:

- Amending the Standard to clarify that the Standard can be applied to a broad range of performance engagements in both the public sector and private sector. This includes replacing references to 'economy, efficiency and effectiveness' in the existing Standard with the term 'performance principle(s)' and clarifying that performance engagements may also focus on other principles such as ethics, equity, probity and sustainability (amongst others).
- Expanding the scope of the Standard to include requirements and application material for limited assurance performance engagements.
- Revising the reporting requirements of the Standard to be clearer and providing additional explanatory and application material to promote consistent application in practice.
- Providing more specificity than ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (which is written primarily to apply to attestation engagements) for performance engagements (which are direct engagements), including further application material to demonstrate key principles. For example, the nature and extent of the assurance practitioner's understanding of relevant internal controls and non-compliance with laws and regulations procedures in the context of a performance engagement.
- Using the term 'significance' in the context of a performance engagement to replace the ASAE 3000 term 'materiality', and updating relevant requirements and tailoring application material to assist with application of the concept in practice.

These enhancements are further explained in the [Explanatory Memorandum](#) that accompanied the Exposure Draft of the proposed Revised Standard, which was released for public comment in May 2024.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates this Standard on Assurance Engagements ASAE 3500 *Performance Engagements* pursuant to paragraph 227B(1)(b) of the *Australian Securities and Investments Commission Act 2001*.

This Standard on Assurance Engagements is to be read in conjunction with ASA 101 *Preamble to AUASB Standards*, which sets out how AUASB Standards are to be understood, interpreted and applied; and ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, which provides the overarching requirements for all assurance engagements other than those engagements relating to historical financial information.

Dated: 16 December 2024

Doug Niven
Chair – AUASB

Conformity with International Standards on Assurance Engagements

This Standard on Assurance Engagements has been formulated for Australian public interest purposes and, accordingly, there is no equivalent International Standard on Assurance Engagements (ISAE) issued by the International Auditing and Assurance Standards Board (IAASB).

This Standard does, however, reflect certain aspects of other Australian ASAEs, which reproduce substantial parts of the equivalent ISAEs issued by the IAASB, including ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

In developing this ASAE, the AUASB have considered and, where useful, incorporated relevant content from performance audit standards and guidance materials issued by the International Organisation of Supreme Audit Institutions (INTOSAI).¹

¹ For example: INTOSAI Standards ISSAI 300 *Performance Audit Principles* (2019) and ISSAI 3000 *Performance Audit Standard* (2019); and INTOSAI Guidance GUID 3910 *Central Concepts for Performance Auditing* (2019) and GUID 3920 *The Performance Auditing Process* (2019).

STANDARD ON ASSURANCE ENGAGEMENTS ASAE 3500

Performance Engagements

Application

1. This Standard on Assurance Engagements (ASAE) applies to direct engagements to provide an assurance report on an activity's performance.

Operative Date

2. This ASAE is operative for assurance engagements commencing on or after 1 April 2025, with early adoption permitted.

Introduction

Scope of this ASAE

3. This ASAE deals with direct engagements in which an assurance practitioner evaluates a responsible party or parties' performance of an activity (hereafter referred to as an 'activity's performance') against identified criteria and aims to obtain sufficient appropriate evidence to express, in a written direct assurance report, a conclusion to intended users about the outcome of the evaluation. (Ref: Para A1)
4. This ASAE includes requirements and application and other explanatory material for reasonable and limited assurance performance engagements. Unless otherwise stated, each requirement of this ASAE applies to both reasonable and limited assurance engagements. Because the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the assurance practitioner performs in a limited assurance engagement will vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Requirements and Application and Other Explanatory Material that apply only to limited assurance or reasonable assurance engagements have been presented with the letter "L" (limited assurance) or "R" (reasonable assurance) after the paragraph number. Although some procedures are required only for reasonable assurance engagements, they may nonetheless be appropriate in some limited assurance engagements. (Ref: Para A2)
5. This ASAE addresses assurance engagements on performance:
 - (a) of all or part of any activity, whether within an entity or across multiple entities; (Ref: Para A3-A4)
 - (b) evaluated against identified criteria selected or developed by the assurance practitioner or the engaging party; and
 - (c) for either restricted use by the engaging party or specified third parties, or to be publicly available through tabling in Parliament or other means of distribution.
6. Other frequently performed engagements that are not assurance engagements and, therefore, are not covered by this ASAE, include:
 - (a) Agreed-upon procedures engagements², where procedures are conducted and factual findings are reported but no assurance conclusion is provided, and

² Agreed-upon procedures engagements are addressed under Standard on Related Services, ASRS 4400 *Agreed-Up Procedures Engagements*.

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- (b) Consulting engagements³, for the purpose of providing advice on performance but no assurance conclusion is provided.

Nature of a Performance Engagement

- 7. The essential elements of performance engagements are: (Ref: Appendix 1 and Appendix 2)
 - (a) a three party relationship involving:
 - (i) an assurance practitioner who may be a State, Territory or Commonwealth Auditor-General;
 - (ii) a responsible party or a number of responsible parties involved in the activity's performance; and
 - (iii) intended users of the assurance report, which may include the responsible party, Parliament and the general public;
 - (b) an appropriate activity's performance (the subject matter);
 - (c) suitable criteria;
 - (d) sufficient appropriate evidence; and
 - (e) a written assurance report.
- 8. Performance engagements are most commonly conducted on activities delivered or controlled by the Government. Performance engagements generally focus on one or more of the principles of economy, efficiency, effectiveness, and/or ethics; however, may also focus on performance principles such as equity, probity and sustainability, amongst others. (Ref: Para A3-A5)
- 9. Performance engagements are usually initiated by a State, Territory or the Commonwealth Auditor-General and will not involve an engaging party. The authority of an Auditor-General to conduct a performance engagement derives from their legislative mandate, consequently the party responsible for the activity does not initiate the performance engagement and their agreement to the terms of engagement may not be required. The scope of a performance engagement is generally determined by an Auditor-General. The roles and responsibilities of the parties to a performance engagement initiated by an Auditor-General are illustrated in Appendix 3. (Ref: Para A9, A10)
- 10. Performance engagements may also be accepted by a private sector assurance practitioner from an engaging party in the private or public sector. In these circumstances, the scope of the performance engagement is determined by the engaging party based on the information needs of the engaging party and other identified users.

Relationship with ASAE 3000, Other AUASB Pronouncements and Other Requirements

- 11. This ASAE adapts the requirements in ASAE 3000⁴, which is written primarily for attestation engagements, as necessary, to direct engagements on performance and identifies the requirements of ASAE 3000 which the assurance practitioner is required to comply with in conducting a performance engagement in addition to the requirements of this ASAE.⁵ The *Framework for Assurance Engagements*, which defines and describes the elements and objectives of an assurance engagement, provides the context for understanding this ASAE and ASAE 3000.

³ See ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, paragraph A1.

⁴ ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

⁵ See ASAE 3000, paragraph 2.

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12. This ASAE requires the assurance practitioner to apply the ASAE 3000 requirement to comply with relevant ethical requirements related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. It also requires the Audit Office of an Auditor-General to apply ASQM 1⁶ or the assurance practitioner to be a member of a firm that applies ASQM 1 or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQM 1.
13. An assurance engagement performed under this ASAE may be part of a larger engagement. If multiple standards are applicable to the assurance engagement, the assurance practitioner applies, either:
 - (a) if the engagement can be separated into sections, the standard relevant to each section of the engagement, including this ASAE for the section on performance; or
 - (b) if the engagement cannot be separated into sections, the standard which is most directly relevant to the subject matter.
14. In circumstances when an assurance engagement performed under this ASAE includes a compliance section, the assurance practitioner applies both ASAE 3100⁷ and ASAE 3500, as applicable, in conducting the assurance engagement.
15. Assurance conclusions on performance may be required by Parliament, legislation, industry bodies or other users in conjunction with assurance conclusions on historical financial statements, other historical financial information, compliance, controls and/or other subject matters. In these performance engagements, the subject matter, identified criteria against which that subject matter is evaluated and the level of assurance sought may vary, in which case different standards will apply. Assurance reports can include separate sections for each subject matter, identified criteria or level of assurance, in order that the different matters to be concluded upon are clearly differentiated.
16. A table showing the AUASB Standards that apply to certain engagements, depending on the subject matter and engagement circumstances, is contained in Appendix 4.

Objectives of this ASAE

17. In conducting a performance engagement, the objectives of the assurance practitioner are to:
 - (a) obtain reasonable or limited assurance to express an appropriate conclusion in a written report about an activity's performance against an engagement objective and identified criteria; and
 - (b) communicate further as required by this ASAE and any other relevant ASAEs.

Definitions

18. For the purposes of this ASAE, the following terms have the meanings attributed below:
 - (a) **Activity**—An aspect of an entity's operations such as the achievement of strategic objectives or legislative requirements or the delivery of a product, service or programme. An activity may be conducted within a single entity or across multiple entities, departments, agencies, joint ventures or other organisations, within a single jurisdiction or across multiple jurisdictions. (Ref: Para A3-A4)
 - (b) **Activity's performance**—The responsible party or parties' performance of the activity being reported on (that is, the subject matter for the performance engagement).

⁶ ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements.*

⁷ ASAE 3100 *Compliance Engagements.*

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- (c) Assurance practitioner—Individual or firm or other organisation, whether in public practice, industry and commerce or the public sector, providing assurance services including performance engagements.
- (d) Attestation engagement—An assurance engagement in which a party other than the assurance practitioner measures or evaluates the underlying subject matter against the criteria. A party other than the assurance practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the assurance practitioner in the assurance report. In an attestation engagement, the assurance practitioner’s conclusion addresses whether the subject matter information is free from material misstatement.⁸ (Ref: Para A1)
- (e) Criteria—The benchmarks used to evaluate the activity’s performance. The “identified criteria” are the criteria used for the particular engagement. (Ref: Para 27)
- (f) Direct engagement on performance—An assurance engagement in which the assurance practitioner obtains sufficient appropriate evidence to evaluate an activity’s performance (the subject matter) against identified criteria. The outcome of this evaluation, that is, the resulting subject matter information (for example, the assurance practitioner’s analysis and findings) is presented as part of, or accompanying, the assurance report. In a direct engagement, the assurance practitioner’s conclusion addresses the reported outcome of the evaluation of the subject matter against the criteria.⁹ (Ref: Para A1)
- (g) Engagement objective (objective of the performance engagement)—States the purpose of the performance engagement. The engagement objective needs to be expressed in a way that makes it possible to conclude against the objective after the engagement has been finalised.¹⁰ (Ref: Para A27-A30)
- (h) Engagement risk—The risk that the assurance practitioner expresses an inappropriate conclusion.¹¹
- (i) Engaging party—The party(ies) that engages the assurance practitioner to perform the assurance engagement. In a performance engagement initiated by an Auditor-General there will not normally be an engaging party as the State, Territory or Federal Parliament provide the mandate for the Auditor-General to conduct performance engagements, but will not usually engage the Auditor-General to perform specific performance engagements.
- (j) Further procedures—Procedures, including tests of controls and substantive procedures, performed to: (Ref: Para 41-46)
 - (i) In a limited assurance engagement, respond to the identified areas where a significant variation in an activity’s performance is likely to arise; and
 - (ii) In a reasonable assurance engagement, respond to the risks that may cause significant variations in an activity’s performance.
- (k) Intended users—Parliament and the responsible party(ies), as well as organisations, groups or individuals that the assurance practitioner expects will use the assurance report. If the assurance report is publicly available, intended users includes the public.
- (l) Limited assurance engagement—An assurance engagement in which the assurance practitioner reduces engagement risk to a level that is acceptable in the circumstances

⁸ See ASAE 3000, paragraph 12(a)(ii)a.

⁹ See ASAE 3000, paragraph 12(a)(ii)b and Framework for Assurance Engagements, paragraph 13.

¹⁰ INTOSAI Guidance GUID 3910, paragraph.35.

¹¹ See ASAE 3000, paragraphs A11-A14 for further information.

of the engagement, but where that risk is greater than for a reasonable assurance engagement as the basis for the assurance practitioner's conclusion. The assurance practitioner's conclusion is expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the assurance practitioner's attention to cause the assurance practitioner to believe that the responsible party(ies) did not perform the activity in accordance with the identified criteria. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the assurance practitioner's professional judgement, meaningful. To be meaningful, the level of assurance obtained by the assurance practitioner is likely to enhance the intended users' confidence about the activity's performance to a degree that is clearly more than inconsequential. For further information on the nature, timing and extent of procedures in a limited assurance engagement and the concept of 'meaningful assurance', refer to ASAE 3000¹² (Ref: Para A2, A100).

- (m) Performance engagement—An assurance engagement that concludes on all or a part of an activity's performance as evaluated against identified criteria. Performance engagements generally focus on one or more performance principle (see 18(n) below). Performance engagements seek to provide new information, analysis or insights and, where appropriate, recommendations for improvement¹³.
- (n) Performance principle—The specific aspect of performance being evaluated against the engagement objective. Performance engagements generally focus on one or more of the principles of economy, efficiency, effectiveness, and/or ethics; however, may also focus on performance principles such as equity, probity and sustainability, amongst others. (Ref: Para A5)
- (o) Professional scepticism—An attitude that includes a questioning mind, being alert to the validity of evidence obtained and critically assessing evidence that contradicts or brings into question the reliability of information obtained. Information may include data, documents and responses to enquiries.
- (p) Reasonable assurance engagement—An assurance engagement in which the assurance practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the assurance practitioner's conclusion. The assurance practitioner's conclusion is expressed in a form that conveys the assurance practitioner's conclusion on the outcome of the evaluation of the activity's performance against the identified criteria.
- (q) Representation—Statement by the responsible party(ies), either oral or written, provided to the assurance practitioner to confirm certain matters or to support other evidence.
- (r) Responsible party—The party or parties responsible for the performance of all or part of the activity, which is the subject matter of the performance engagement.
- (s) Risk procedures—Procedures designed and performed to: (Ref: Para 36-40)
 - (i) In a limited assurance engagement, identify areas where a significant variation in an activity's performance is likely to arise; and
 - (ii) In a reasonable assurance engagement, identify and assess the risks that may cause significant variations in an activity's performance.

¹² See ASAE 3000, paragraphs A3-A7.

¹³ INTOSAI Standard ISSAI 300, paragraph 10.

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- (t) Significance¹⁴—The relative importance of a matter, within the context in which it is being considered, that could potentially influence the decisions of the intended users of the assurance report. (Ref: Para 31-33)
- (u) Subject matter—The phenomenon that is measured or evaluated by applying criteria.¹⁵ In the context of a performance engagement the subject matter is the responsible party or parties' performance of an activity as evaluated against the identified criteria.
- (v) Variation—An instance where the actual performance of the activity varies from the identified criteria.

Requirements

Applicability of ASAE 3000

19. The assurance practitioner shall not represent compliance with this ASAE unless the assurance practitioner has complied with the requirements of this ASAE and the requirements of ASAE 3000 identified in this ASAE as relevant to performance engagements, adapted as necessary for direct engagements.

Inability to Comply with Relevant Requirements

20. Where in rare and exceptional circumstances, factors outside the assurance practitioner's control prevent the assurance practitioner from complying with a relevant requirement in this ASAE, the assurance practitioner shall:
- (a) if possible, undertake appropriate alternative evidence-gathering procedures; and
 - (b) document in the working papers:
 - (i) the circumstances surrounding the inability to comply;
 - (ii) the reasons for the inability to comply; and
 - (iii) justification of how alternative evidence-gathering procedures achieve the objectives of the relevant requirement.
21. When the assurance practitioner is unable to undertake appropriate alternative evidence-gathering procedures, the assurance practitioner shall assess the implications for the assurance report.

Ethical Requirements

22. As required by ASAE 3000, the assurance practitioner shall comply with relevant ethical requirements related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.¹⁶ (Ref: Para A6)

Initiation or Acceptance (Ref: Para A7-A22)

23. The assurance practitioner shall initiate, where the assurance practitioner has the legislative mandate to do so, or accept a performance engagement only when:
- (a) the assurance practitioner has no reason to believe that relevant ethical requirements, including independence, will not be satisfied;

¹⁴ For the purpose of this ASAE, the term 'significance' is used instead of the ASAE 3000 term 'materiality'.

¹⁵ ASAE 3000, paragraph 12(y)

¹⁶ See ASAE 3000, paragraphs Aus 20.1 and ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

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- (b) the assurance practitioner is satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities, including having sufficient time to perform the engagement;
- (c) the preconditions for an assurance engagement are present, as required by ASAE 3000;¹⁷ and
- (d) the basis on which the engagement is to be performed has been communicated and, where relevant, agreed by the assurance practitioner:

Agreeing on or Communicating the Terms of the Performance Engagement (Ref: Para A7-A9)

- 24. If the performance engagement is initiated by an engaging party, the assurance practitioner shall agree the terms of engagement, including the assurance practitioner's reporting responsibilities, with the engaging party in writing.
- 25. If the performance engagement is initiated by a State, Territory or the Commonwealth Auditor-General and does not involve an engaging party, then the assurance practitioner shall communicate the terms of engagement with the responsible party, by issuing a written communication advising the responsible party of the planned engagement.

Preconditions for the Assurance Engagement (Ref: Para A10-A22)

- 26. When establishing whether the preconditions for an assurance engagement are present, the assurance practitioner shall determine, based on their preliminary knowledge of the performance engagement circumstances, whether the:
 - (a) activity's performance outcomes/results to be evaluated, are appropriate;
 - (b) criteria identified, selected or developed by the assurance practitioner or agreed with the engaging party are suitable in evaluating the activity's performance, including that they exhibit the characteristics of suitable criteria,¹⁸ and will be available to users;
 - (c) assurance practitioner expects to be able to obtain the evidence needed to support the assurance practitioner's conclusion, which will be contained in a written report; and
 - (d) engagement's objective is rational¹⁹, in that the assurance practitioner expects to be able to conclude against it at a meaningful level of assurance after the engagement has been finalised.
- 27. When identifying, selecting or developing suitable criteria, or determining whether the identified criteria selected by the engaging party are suitable, the assurance practitioner shall consider whether the identified criteria are reasonable quantitative or qualitative measures of performance and clearly state the performance expectations against which the activity's performance may be assessed. Suitable criteria for a performance engagement shall reflect the overall engagement objective(s), the performance principle(s) to be addressed and have the following characteristics: (Ref: Para A17-A22)
 - (a) **Relevance**—relevant criteria contribute to conclusions that assist decision-making by the intended users.
 - (b) **Completeness**—criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the performance engagement circumstances are not omitted.

¹⁷ See ASAE 3000, paragraph 24.

¹⁸ See ASAE 3000, paragraph 24(b)(ii).

¹⁹ See ASAE 3000, paragraphs 24(b)(vi).

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- (c) Reliability—reliable criteria allow reasonably consistent evaluation of the activity’s performance, including when used in similar circumstances by similarly qualified assurance practitioners.
- (d) Neutrality—neutral criteria contribute to conclusions that are free from bias.
- (e) Understandability—understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.

Quality Management

28. The assurance practitioner shall implement the firm’s policies or procedures as required by ASAE 3000.²⁰

Professional Scepticism, Professional Judgement and Assurance Skills and Techniques

29. The assurance practitioner shall apply professional scepticism, exercise professional judgement and apply assurance skills and techniques in planning and performing a performance engagement.²¹

Planning and Performing the Performance Engagement (Ref: Para A23-A82)

Planning (Ref: Para A23-A30)

30. The assurance practitioner shall plan the performance engagement so that it will be performed in an effective manner as required by ASAE 3000²² to achieve the objectives of this ASAE.

Significance (Ref: Para 18(t), A31-A55)

31. The assurance practitioner shall consider significance when planning and performing the engagement. The assurance practitioner’s consideration of significance is matter of professional judgement that is integrated into all aspects of the performance engagement, including when:
- (a) Selecting performance engagement topics and activities to examine;
 - (b) Defining the objective(s) and evaluation criteria for the engagement;
 - (c) Determining the nature, timing and extent of procedures;
 - (d) Evaluating the sufficiency and appropriateness of evidence obtained to confirm if a performance variation exists;
 - (e) Evaluating the significance of any identified variations in the activity’s performance, taken individually and in combination;
 - (f) Reporting findings;
 - (g) Formulating the assurance conclusion(s); and
 - (h) Developing recommendations (if appropriate).
32. During the performance engagement, the assurance practitioner shall reassess the significance of any matter if there is any indication that the basis on which the significance of the matter was determined has changed.

²⁰ See ASAE 3000, paragraphs 31-36.

²¹ See ASAE 3000, paragraphs 37-39.

²² See ASAE 3000, paragraph 40.

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33. The assurance practitioner shall document factors relevant to the practitioner’s consideration of significance, including the basis for professional judgements made when deciding if a matter is significant.

Risk Procedures and Related Activities (Ref: 18(s), Para A56-A82)

Understanding the Activity and Other Performance Engagement Circumstances (Ref: Para A56-A57)

34. The assurance practitioner shall obtain an understanding of the activity included in the scope of the performance engagement, and other engagement circumstances, including events or conditions that may cause significant variations in the activity’s performance.

Enquiries and Discussion with Appropriate Parties

35. The assurance practitioner shall make enquiries of parties as appropriate to the scope of the performance engagement and other engagement circumstances, regarding whether:
- (a) They have knowledge of any intentional variations in the activity’s performance or non-compliance with laws and regulations relevant to the engagement objective(s). In the absence of identified or suspected non-compliance with laws and regulations, the assurance practitioner is not required to perform any further procedures regarding an entity’s compliance with laws and regulations. (Ref: Para A58)
 - (b) The responsible party has an internal audit function and, if so, make further enquiries to obtain an understanding of any reviews of the activity’s performance by the internal audit function and the main findings; and
 - (c) The responsible party has used any internal or external experts in dealing with the activity.

Designing and Performing Risk Procedures (Ref: 18(s), Para A59-A82)

Limited Assurance	Reasonable Assurance
<p>36L. The assurance practitioner shall design and perform risk procedures sufficient to:</p> <ul style="list-style-type: none"> (a) Identify areas where a significant variation in performance is likely to arise; and (b) Thereby, provide a basis for designing and performing further procedures to address those areas and to obtain limited assurance to support the assurance practitioner’s conclusion. 	<p>36R. The assurance practitioner shall design and perform risk procedures sufficient to:</p> <ul style="list-style-type: none"> (a) Identify and assess the risks that may cause significant variation in the activity’s performance; and (b) Thereby, provide a basis for designing and performing further procedures to respond to the assessed risks and to obtain reasonable assurance to support the assurance practitioner’s conclusion.

Understanding Internal Controls Relevant to the Performance Engagement (Ref: Para A67-A82)

37. The assurance practitioner shall perform risk procedures sufficient to determine whether internal controls are relevant to the engagement objective(s). The extent to which internal controls are relevant depends on the engagement circumstances and the level of assurance required, and is a matter of professional judgement.
38. The assurance practitioner shall obtain an understanding of internal controls the practitioner considers are relevant to the evaluation of the activity’s performance against the identified

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criteria. This understanding shall include identifying controls designed to address (mitigate) the risk of significant variation from the identified criteria.

39. For controls over which the assurance practitioner plans to obtain evidence by testing their operating effectiveness, the practitioner’s understanding shall include:
- (a) Evaluating whether the control is designed effectively to address the risk of significant variation or designed effectively to support the operation of other relevant controls; and
 - (b) If designed effectively, determining whether the control has been implemented by performing procedures in addition to enquiry of the responsible party.

Identifying areas where Significant Variations are likely to arise (Limited Assurance) or Identifying and Assessing the Risks of Significant Variation (Reasonable Assurance)

Limited Assurance	Reasonable Assurance
<p>40L. Based on the assurance practitioner’s understanding obtained in paragraphs 34-39, the assurance practitioner shall:</p> <ul style="list-style-type: none"> (a) identify areas where a significant variation in performance is likely to arise; and (b) consider the impact of (a) on the appropriateness of the performance engagement objective(s) and the suitability of the identified criteria and, if necessary, seek to amend the objective and/or identified criteria. 	<p>40R. Based on the assurance practitioner’s understanding obtained in paragraphs 34-39, the assurance practitioner shall:</p> <ul style="list-style-type: none"> (a) identify and assess the risks of significant variation in performance; and (b) consider the impact of assessed risks on the appropriateness of the performance engagement objective(s) and the suitability of the identified criteria and, if necessary, seek to amend the objective(s) and/or identified criteria.

Designing and Performing Further Procedures (Ref: Para 18(j), A83-A94)

Limited Assurance	Reasonable Assurance
<p>41L. The assurance practitioner shall:</p> <ul style="list-style-type: none"> (a) design further procedures to address the areas identified in paragraph 40L(a); and (b) perform further procedures and obtain sufficient appropriate evidence to support the assurance practitioner’s limited assurance conclusion. 	<p>41R. The assurance practitioner shall:</p> <ul style="list-style-type: none"> (a) design further procedures to respond to the assessed risks identified in paragraph 40R(a); and (b) perform further procedures and obtain sufficient appropriate evidence to support the assurance practitioner’s reasonable assurance conclusion. <p>In designing and performing further procedures, the practitioner shall:</p> <ul style="list-style-type: none"> (a) consider whether the practitioner intends to obtain evidence about the operating effectiveness of controls in determining the nature, timing and extent of other procedures; and

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Limited Assurance	Reasonable Assurance
	(b) obtain more persuasive evidence the higher the practitioner's assessment of risk.

Revision of Risk Assessment in a Reasonable Assurance Engagement

42R. The assurance practitioner's assessment of the risks of significant variation in the activity's performance may change during the course of the engagement as additional evidence is obtained. In circumstances where the practitioner obtains evidence which is inconsistent with the evidence on which the practitioner originally based the assessment of the risks of significant variation, the practitioner shall revise the assessment, and design and perform modified and/or additional procedures.

Performing Modified and/or Additional Procedures in a Limited Assurance Engagement
(Ref: Para A89L-A91L)

43L. If the assurance practitioner becomes aware of a matter that causes the practitioner to believe that a significant variation in the activity's performance may exist, the practitioner shall design and perform modified and/or additional procedures to obtain further evidence until the practitioner is able to form a conclusion that either:

- (a) the matter is not likely to result in a significant variation in the activity's performance; or
- (b) a significant variation in the activity's performance exists.

Work Performed by an Assurance Practitioner's Expert

44. When the assurance practitioner plans to use the work of an assurance practitioner's expert, the assurance practitioner shall comply with the requirements in ASAE 3000.²³

Work Performed by Another Assurance Practitioner, a Responsible Party's Expert, or an Internal Auditor

45. If the assurance practitioner plans to use information prepared by another party as evidence, the assurance practitioner shall comply with the requirements of ASAE 3000.²⁴

Written Representations (Ref: Para A92-A94)

46. The assurance practitioner shall request and endeavour to obtain written representations from the responsible party, as appropriate for the performance engagement.

Evaluating the Impact of Identified Variations (Ref: Para A95)

47. The assurance practitioner shall evaluate whether the identified variations in the activity's performance are significant, individually or in combination. The assurance practitioner shall consider the size and severity of the impact or potential impact of those variations and conclude whether the activity was partially performed or not performed as evaluated against the identified criteria.²⁵

48. In making this evaluation, the assurance practitioner shall consider whether individual variations in performance identified during the engagement (other than those that are clearly

²³ See ASAE 3000, paragraph 52.

²⁴ See ASAE 3000, paragraphs 53-55.

²⁵ The equivalent conclusion in ASAE 3000 is a qualified ("except for") or adverse conclusion.

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trivial) have characteristics, for example, a root cause or a systemic issue, that indicate the combined effect of individual variations is likely to be significant.

Subsequent Events (Ref: Para A96-A97)

49. When relevant to the performance engagement, the assurance practitioner shall consider the effect on the activity's performance of events that become known to the assurance practitioner up to the date of the assurance report. The practitioner shall respond appropriately to facts that become known to the assurance practitioner after the date of the assurance report that, had they been known to the assurance practitioner at that date, may have caused the assurance practitioner to amend the assurance report. The extent of consideration of subsequent events depends on the assurance practitioners' judgement of the potential for such events to affect the activity's performance and to affect the appropriateness of the assurance practitioner's conclusion. However, the assurance practitioner has no responsibility to perform any procedures regarding the activity's performance after the date of the assurance report.

Forming the Assurance Conclusion(s) (Ref: Para A98-A100)

50. The assurance practitioner shall evaluate whether sufficient and appropriate evidence has been obtained from the procedures performed. If there is not sufficient or appropriate evidence, the assurance practitioner shall perform procedures to obtain further evidence to be able to form a conclusion on the activity's performance. If the assurance practitioner is unable to obtain the necessary further evidence, the assurance practitioner shall consider the implications for the assurance practitioner's conclusion.²⁶ The assurance practitioner shall state in their conclusion that there was not sufficient or appropriate evidence to conclude against aspects of the engagement objective(s) or engagement objective(s) as a whole.
51. The assurance practitioner shall form a conclusion(s) about the activity's performance against the engagement objective(s). In forming that conclusion, the assurance practitioner shall consider the outcomes of procedures performed in paragraphs 47-50.

Preparing the Assurance Report (Ref: Para A101-A121)

52. The assurance report shall be in writing and shall contain a clear expression of the assurance practitioner's reasonable or limited assurance conclusion about the activity's performance against the engagement objective(s), or explain why this was not possible.
53. The assurance practitioner's conclusion shall be clearly identified in the assurance report, separate from findings, recommendations and other information or explanations included in the report.
54. The assurance report shall include information necessary to address the engagement objective(s), and be sufficiently detailed to allow report users to understand the activity's performance and the assurance practitioner's conclusion(s), findings and recommendations (if appropriate).

Assurance Report Content (Ref: Para A104-A121)

55. The assurance report shall include at a minimum the following elements, to the extent that it is not inconsistent with relevant legislation or regulation:
- (a) A title or title page, indicating that it is an independent assurance report.
 - (b) An addressee.
 - (c) Identification of the scope of the performance engagement including:

²⁶ The equivalent conclusion in ASAE 3000 is a qualified conclusion ("except for") or disclaimer of conclusion.

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- (i) the activity's performance which was the subject matter of the performance engagement; (Ref: Para 18(b))
 - (ii) the engagement objective(s); (Ref: Para 18(g))
 - (iii) the criteria for evaluating the activity's performance, and their sources; (Ref: Para 18(e), 27, A111)
 - (iv) if relevant, the date of, or period(s) covered by, the report;
 - (v) any activities the assurance practitioner has specifically excluded from the scope; and
 - (vi) if appropriate, a description of any significant inherent limitations associated with the evaluation of the activity's performance against the identified criteria;
- (d) Identification or description of the level of assurance obtained/provided by the assurance practitioner. (Ref: Para A115)
- (e) Identification of the responsible party(ies) and a description of their responsibilities. (Ref: Para 18(r))
- (f) The assurance practitioner's conclusion(s) against the engagement objective(s) which: (Ref: Para A98, A114-A118)
- (i) in a reasonable assurance engagement, shall be expressed in a positive form.
 - (ii) in a limited assurance engagement, shall be expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the assurance practitioner's attention to cause the practitioner to believe that the responsible party did not perform the activity in accordance with the identified criteria.
- (g) When the assurance practitioner was unable to obtain sufficient appropriate evidence (a scope limitation exists), the assurance report shall contain: (Ref: Para 58-59)
- (i) A description of the causes and consequences of those findings; and (Ref: Para A112-A113)
 - (ii) The assurance practitioner's conclusion that there was not sufficient or appropriate evidence to conclude on the responsible party's performance of:
 - a. certain aspects of the activity; or (Ref: Para A116(a))
 - b. the activity as a whole. (Ref: Para A116(b))
- (h) When the assurance practitioner has identified significant variations in the activity's performance, the assurance report shall contain:
- (i) A description of the causes and consequences of those findings; and (Ref: Para A112-A113)
 - (ii) The assurance practitioner's conclusion that either the responsible party:
 - a. did not perform the activity in accordance with the identified criteria in certain significant respects; or (Ref: Para A117(a))
 - b. did not perform the activity in accordance with the identified criteria in all significant respects. (Ref: Para A117(b))
- (i) The basis for the assurance practitioner's conclusion, including: (Ref: Para A119-A120)

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- (i) A statement that the engagement was conducted in accordance with ASAE 3500 *Performance Engagements*; (Ref: Para A119)
- (ii) An informative summary of the work performed by the practitioner as the basis for the practitioner's conclusion. In the case of a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential to understanding the practitioner's conclusion. For a limited assurance engagement, the summary of the work performed shall state that: (Ref: Para A100, A120)
 - a. The procedures performed in a limited assurance engagement vary in nature and timing from, and are lesser in extent than for, a reasonable assurance engagement; and
 - b. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed;
- (iii) A statement that identifies the assurance practitioner's responsibilities or refers to a section in the assurance report that describes the practitioner's responsibilities.*
- (iv) A statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.*

* Alternatively, where the information in (iii) and (iv) above is not included within the assurance report but provided within a separate report, or on a website controlled and managed by an Audit Office of an Auditor-General, the assurance report shall include a summary statement with a specific reference to the location of such information.

- (j) Signature of the assurance practitioner, the Audit Office or location in the jurisdiction where the assurance practitioner practices, and the date of the assurance report.
56. If appropriate, the assurance practitioner shall provide recommendations intended to address, or are related to, the assurance practitioner's findings from the engagement. (Ref: Para A121)
57. If the assurance practitioner is required to conclude on other subject matters under different AUASB Standards in conjunction with an engagement to report under this ASAE, the assurance report shall include a separate section for each subject matter in the assurance report, clearly differentiated by appropriate section headings. (Ref: Appendix 4)

Scope Limitation (Ref: Para 55(g))

58. A limitation on the scope of the assurance practitioner's work may be imposed by the terms of the engagement, if the engagement was initiated by an engaging party, or by the circumstances of the particular engagement. When the limitation is imposed by the terms of the engagement, and it is likely to prevent the assurance practitioner from reaching a conclusion, the engagement shall not be accepted, unless required to do so by law or regulation.
59. When a scope limitation is imposed by the circumstances of the particular engagement, the assurance practitioner shall attempt to perform alternative procedures to overcome the limitation. When a scope limitation exists and remains unresolved, the wording of the assurance practitioner's report shall comply with paragraph 55(g).

Other Communication Responsibilities

60. If, during the course of the performance engagement, the assurance practitioner identifies any significant variations in the activity's performance, the assurance practitioner shall report those variations to the responsible party on a timely basis in order to allow the responsible party sufficient time to investigate and respond to the identified variations.
61. The assurance practitioner shall consider whether, pursuant to the terms of the performance engagement, if applicable, and other engagement circumstances or legislative requirements, any matter has come to the attention of the assurance practitioner that is to be communicated with Parliament, the responsible party, the engaging party (if applicable) or others, as required by ASAE 3000.²⁷
62. The assurance practitioner shall determine whether there is a responsibility or legislative requirement for the assurance practitioner to report the occurrence or suspicion of fraud or other misconduct to a party outside the entity, including Parliament, a regulator or government agency. Any such reporting shall be in accordance with the relevant legislation.

Documentation (Ref: Para A122-A123)

63. The assurance practitioner shall prepare documentation in accordance with ASAE 3000.²⁸ In documenting the nature, timing and extent of procedures performed as required by ASAE 3000, the assurance practitioner shall record:
 - (a) the identifying characteristics of the activity's performance being tested;
 - (b) who performed the work and the date such work was completed; and
 - (c) who reviewed the work performed and the date such review was performed.

* * *

²⁷ See ASAE 3000, paragraph 78.

²⁸ See ASAE 3000, paragraphs 79-83.

Application and Other Explanatory Material

Introduction (Ref: Para 3-16)

- A1. Direct engagements share many features of an attestation engagement undertaken under ASAE 3000. However, direct engagements also have unique features that are different from those of attestation engagements. For example, performance engagements undertaken in the public sector are ordinarily direct engagements, that have the following features:
(Ref: Para 18(d)(f))
- The party responsible for the activity's performance being reported on does not make a public assertion or statement on the activity's performance as evaluated against the identified criteria.
 - Pursuant to their legislative mandate, the assurance practitioner decides the:
 - activity's performance to be evaluated; and
 - nature and scope of the activity's performance to be reported on.
 - The assurance practitioner identifies or develops the evaluation criteria against which the activity's performance is assessed.
 - The assurance practitioner then evaluates the activity's performance (the subject matter) against the identified criteria and presents the outcome of the evaluation (the resulting subject matter information) as part of, or accompanying, the assurance report.
- A2. If the assurance practitioner initiates or accepts a limited assurance engagement to evaluate an activity's performance, the assurance practitioner ensures:
- (a) the users understand the lower level of assurance which the assurance practitioner will obtain as a basis for their conclusion;
 - (b) a limited assurance conclusion is likely to still meet the users' needs; and
 - (c) the assurance conclusion clearly communicates that the procedures performed vary in nature and timing from, and are lesser in extent than for, a reasonable assurance engagement and so the level of assurance obtained may be substantially lower than in a reasonable assurance engagement.
- A3. Elements of an activity's performance that may be considered in a performance engagement include:
- (a) systems for planning, budgeting, authorisation, control and evaluation of resource allocation;
 - (b) systems for ensuring compliance with relevant legislation, policies or procedures;
 - (c) governance structures, including the assignment of responsibilities and accountability;
 - (d) identification and management of risks;
 - (e) reporting on resources used; and
 - (f) reporting on outputs, outcomes and the achievement of objectives.
- A4. In the public sector, the conduct of performance engagements by Auditors-General is legislated in the respective jurisdictions. While the legislative requirements may have either a narrow or broad scope, performance engagements may include examination of:
- (a) economy, efficiency, effectiveness and/or ethical aspects of:

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- (i) management systems or an entity's management in order to contribute to improvements;
 - (ii) the operations of an entity or an activity of an entity;
 - (iii) the implementation of government policies or programs, and the application of government grants;
 - (iv) financial prudence in the application of public resources; and
 - (v) administrative arrangements.
- (b) intended and unintended impacts of the implementation of government policies or programs and the extent to which community needs and stated objectives of an activity or entity have been met; or
- (c) probity processes and identification of weaknesses.

Definitions

Performance Principle (Ref: Para 18(n))

A5. The performance principle(s) to be addressed in evaluating an activity's performance will vary depending on the terms of the engagement agreed or, for Auditors-General, the legislative mandate that applies in their jurisdiction. Performance engagements generally focus on one or more of the following performance principles (there may be others):

- Economy—The principle relating to the minimisation of the costs of resources, within the operational requirements of timeliness and availability of required quantity or quality.
- Effectiveness—The principle relating to the extent to which the intended objectives or outcomes of an activity are achieved.
- Efficiency—The principle relating to minimising the inputs employed to deliver outputs of an activity at the appropriate quality and quantity and when the outputs are needed.
- Ethics—The principle relating to the extent to which the proposed use of public resources is consistent with the core beliefs and values of society. Where a person behaves in an ethical manner it could be expected that a person in a similar situation would undertake a similar course of action. For the approval of proposed commitments of relevant money, an ethical use of resources involves managing conflicts of interests, and approving the commitment based on the facts without being influenced by personal bias. Ideally, ethical considerations are balanced with considerations of whether the use will also be efficient, effective and economical.²⁹
- Equity—The principle relating to fairness and impartiality in the use of public resources and/or the availability of public services.³⁰ Equity is often treated as an element of ethics.
- Probity—The principle relating to evidence of ethical behaviour, and can be defined as complete and confirmed integrity, uprightness and honesty in a particular process.³¹ As there may be some overlap between probity and ethics, probity is often treated as an element of ethics.

²⁹ The Australian Government Department of Finance, [Public Governance and Accountability Act 2013, PGPA Glossary](#).

³⁰ Based on Macquarie Dictionary definition of 'equity'.

³¹ The Australian Government Department of Finance, [Ethics and Probity in Procurement: Principles \(17 May 2021\)](#).

- Sustainability—The principle relating to sustainable development strategies or management of sustainable development and environmental issues in meeting the needs of the present generation without compromising the ability of future generations meeting theirs.³²

Ethical Requirements (Ref: Para 22)

- A6. Relevant ethical requirements include the following fundamental principles with which the assurance practitioner is required to comply:
- (a) integrity;
 - (b) objectivity, including independence;
 - (c) professional competence and due care;
 - (d) confidentiality; and
 - (e) professional behaviour.

Initiation or Acceptance (Ref: Para 23-27)

Agreeing on or Communicating the Terms of the Performance Engagement (Ref: Para 24-25)

- A7. The terms of the performance engagement normally identify:
- (a) the engagement objective(s);
 - (b) whether the engagement is a reasonable or limited assurance engagement;
 - (c) the activity's performance to be evaluated in the engagement;
 - (d) the period to be covered by the engagement;
 - (e) the performance principle(s) to be addressed in evaluating performance;
 - (f) suitable criteria, in so far as the criteria have been identified, against which the activity's performance will be evaluated;
 - (g) the intended users of the assurance report;
 - (h) the base elements of the assurance report; and
 - (i) any other matters required by law or regulation to be included in the terms of engagement.
- A8. The terms of engagement may also seek the responsible party's agreement that they acknowledge and understand their responsibility to provide the assurance practitioner with:
- (a) access to all information, such as records, documentation and other matters of which the responsible party is aware are relevant to the activity's performance;
 - (b) all additional information that the assurance practitioner may request from the responsible party for the purposes of the performance engagement; or
 - (c) unrestricted access to persons engaged in the activity from whom the assurance practitioner determines it necessary to obtain evidence.

³² Based on the definition of the World Commission on Environment and Development, *Our Common Future*, 1987 ('The Brundtland Report'). The terms 'sustainability' and 'sustainable development' are often used interchangeably.

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A9. If there is no engaging party, such as for performance engagements initiated by an Auditor-General, the existence of a legislative mandate may obviate the need to agree on the terms of the performance engagement. Even in those circumstances it may be useful for the assurance practitioner to communicate the terms of engagement to the responsible party, including referral of any legislative requirements imposed on the responsible party to provide access to information or people relevant to the activity. (Ref: Para 9)

Preconditions for the Assurance Engagement (Ref: Para 26-27)

A10. In the public sector, if a performance engagement is initiated by the assurance practitioner, some of the preconditions for the assurance engagement may be assumed to be present if they are set out in legislation, such as the roles and responsibilities of the responsible party and the right of access to information by the assurance practitioner. (Ref: Para 9)

A11. When initiating or accepting a performance engagement, in order to satisfy themselves that those persons who are to perform the performance engagement collectively have the appropriate competence and capabilities, including having sufficient time to perform the engagement, the assurance practitioner may need to either assemble a multi-disciplinary team or be a specialist in the relevant discipline.

A12. When multi-disciplinary teams are used in a performance engagement, adequate direction and supervision of engagement teams and review of their work are particularly important, so that the engagement team members' different perspectives, experience and specialties are appropriately used. It is important that all engagement team members understand the objectives of the particular performance engagement and the terms of reference of work assigned to them. Adequate direction and supervision of engagement teams and review of their work are important so that the work of all engagement team members is executed properly and is in compliance with this ASAE and meets the quality management requirements of ASAE 3000.

Assessing the appropriateness of the activity's performance to be evaluated as the subject matter (Ref: Para 26(a))

A13. When assessing the appropriateness of the activity's performance to be evaluated as the subject matter of the performance engagement, the assurance practitioner considers whether the:

- the activity is identifiable, and whether its performance can be consistently evaluated against identified criteria; and
- the activity's performance can be subjected to procedures for gathering sufficient appropriate evidence to support a conclusion.

A14. If after initiating or accepting the performance engagement, the assurance practitioner concludes that the activity's performance is not an appropriate subject matter, the assurance practitioner assesses whether to:

- change the scope of the performance engagement or, if terms of the performance engagement have been agreed with the engaging party, seek to amend those terms; or
- withdraw from or discontinue the performance engagement.

A15. In the event that the assurance practitioner is unable to change the scope or terms of, or withdraw from or discontinue, the performance engagement under paragraph A14 of this ASAE, the assurance practitioner considers the implications for the assurance report.

A16. In a performance engagement initiated by the assurance practitioner, the identification of the subject matter and development of the engagement objective(s) and criteria is revised and refined as:

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- more information on the subject matter is gathered; and
- the assurance practitioner better understands the needs of the intended users.

Assessing the Suitability of the Criteria (Ref: Para 26(b), 27)

- A17. Criteria are the measures used to evaluate the activity's performance. Criteria which address each objective or sub-objective are developed or identified in planning the performance engagement. In assessing the suitability of the criteria, the assurance practitioner considers whether the criteria are derived from sources such as:
- (a) regulatory bodies, legislation or policy statements;
 - (b) industry standards, relevant benchmarks, and relevant practice guides developed by professional bodies, associations or other recognised authorities;
 - (c) statistics, measures or practices developed by the responsible party or by similar entities; or
 - (d) those developed by the assurance practitioner themselves, in which case the assurance practitioner documents why the identified criteria are suitable.
- A18. Regardless of the source, the assurance practitioner documents their assessment of the suitability of the identified criteria. The suitability of the criteria is determined within the context of the engagement circumstances, including the performance principle(s) to be addressed.
- A19. Criteria may range from general to specific. General criteria are broad statements of acceptable and reasonable performance. Specific criteria are derived from general criteria and are more closely related to an entity's governing legislation or mandate, objectives, programs, systems and controls.
- A20. Criteria are either established or specifically developed. Ordinarily, established criteria are suitable when they are relevant to the needs of the intended users. For some engagements criteria may have been developed to meet the needs of specific users. In this case, the assurance report may state, if it is relevant to the intended users:
- that the criteria are not embodied in laws or regulations, or issued by authorised or recognised bodies of experts that follow a transparent due process; and
 - that the assurance report is only for the use of the intended users and for their purposes.
- A21. If, after initiating or accepting the performance engagement, the assurance practitioner concludes that the identified criteria are not suitable, the assurance practitioner may either:
- identify or develop suitable criteria;
 - seek to change the terms of the performance engagement, if necessary, such as when the terms have been agreed with an engaging party; or
 - withdraw from or discontinue the performance engagement.
- A22. In the event that the assurance practitioner is unable to change the terms of, or withdraw from or discontinue, the performance engagement, the assurance practitioner considers the implications for the assurance report.

Planning and Performing the Performance Engagement (Ref: Para 30-40)

- A23. In the public sector, Auditors-General regularly receive topic suggestions for performance engagements from members of Parliament, executive government and the public.

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Auditors-General may also select topics that align with government policy objectives and reform agendas to assess progress and impacts. Auditors-General ordinarily adopt a strategic and risk-based approach to selecting performance engagement topics that are significant and auditable, and consistent with their legislative mandate. Once an Auditor-General has selected an engagement topic, the assurance practitioner plans the performance engagement.

A24. Planning involves developing an overall strategy for the scope, emphasis, timing and conduct of the performance engagement. The performance engagement plan consists of a detailed approach for the nature, timing and extent of evidence-gathering procedures to be undertaken and the reasons for selecting them. Ordinarily, adequate planning:

- helps to devote appropriate attention to important areas of the activity's performance, identify potential risk areas on a timely basis and properly organise and manage the performance engagement in order for it to be conducted in an effective and efficient manner;
- assists the assurance practitioner to properly assign work to performance engagement team members, and facilitates the direction and supervision of engagement team members and the review of their work; and
- assists, where applicable, the coordination of work done by other assurance practitioners and experts.

A25. The nature and extent of planning activities will vary with the performance engagement circumstances, for example the size and complexity of the activity and the assurance practitioner's previous experience with it. Examples of the main matters to be considered include:

- The terms of the performance engagement.
- The assurance practitioner's understanding of the activity and other performance engagement circumstances.
- The characteristics of the activity and the identified criteria.
- The performance engagement process and possible sources of evidence.
- Identification of intended users and their needs, and consideration of significance in the context of the engagement.
- The assessment of risk.
- Personnel and expertise requirements, including the nature and extent of involvement by internal and external experts.

A26. Planning is not a discrete phase, but rather a continual and iterative process throughout the performance engagement. As a result of unexpected events, changes in conditions, or the evidence obtained from the results of evidence-gathering procedures, the assurance practitioner may need to revise the overall strategy and performance engagement plan and, as such, the resulting planned nature, timing and extent of further evidence-gathering procedures.

*Engagement Objective(s)*³³ (Ref: Para 18(g))

A27. The objective of a performance engagement is often presented as a statement of purpose or question, which references the responsible party, the subject matter and the performance principle(s) to be addressed (for example, economy, efficiency, effectiveness and/or ethics). The assurance practitioner exercises professional judgement in determining the use of the most

³³ See INTOSAI Standard ISSAI 300, paragraph 25.

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appropriate terminology throughout the performance engagement and especially in the assurance report.

- A28. The engagement objective is framed in a way that allows for an unambiguous conclusion to be reached as to whether the responsible party performed, or did not perform, the activity in accordance with the identified criteria.
- A29. In planning the performance engagement, if the scope of the engagement is based on an overall objective, then the assurance practitioner may identify more precise sub-objectives/questions (or lines of enquiry) from which they can identify, select or develop the criteria against which the activity's performance can be evaluated. Such sub-objectives/questions are typically thematically related, complementary, not overlapping and collectively exhaustive in addressing the engagement objective.
- A30. Ideally, each engagement would have one overall objective that provides a clear focus for the engagement. However, for more complex engagements, the assurance practitioner may choose to develop several engagement objectives, which do not always need to be broken down into sub-objectives.

*Significance*³⁴ (Ref Para 31-33)

- A31. For the purpose of this ASAE, significance may be viewed as the relative importance of a matter, within the context in which it is being considered, that could potentially influence the decisions of the intended users of the assurance report.
- A32. For the purpose of this ASAE, the term 'significance' is used instead of the ASAE 3000 term 'materiality'. The concept of significance is considered more useful in the context of a performance engagement. It can be applied more flexibly at different stages of the engagement and is considered more helpful in ensuring that the assurance practitioner selects the right activities, criteria and findings to report, and provide assurance reports that are relevant and useful for the intended users. Significance may also be more meaningful to the lay person reading the assurance report, especially when communicated in terms of the causes and consequences of a finding (that is, the size and severity of the impact or potential impact of the finding).
- A33. Consideration of significance is a matter of professional judgement and depends on the assurance practitioner's perception of the intended users' needs and interests. Since the subject matter of performance engagements can vary broadly, that perspective may vary from one engagement to another.
- A34. In judging the relative importance of a matter, the assurance practitioner considers the:
- nature of the impact(s), which may relate to monetary value or the impact on the environment, society, politics, culture and the economy;
 - size and severity of the impact or potential impact if it can be quantified; and
 - likelihood of an impact occurring, which may be expressed using general terms (likely, very likely) or more precisely (for example, the probability of something occurring).
- A35. The inherent characteristics of an item may render a matter significant by its very nature. A matter may also be significant because of the context in which it occurs. Relevant considerations may include economic, environmental, political, cultural and other societal challenges at local, regional and global levels related to the activity's performance examined, as well as compliance with laws and regulations.

³⁴ INTOSAI Standard ISSAI 3000, paragraphs 83-85 used as starting point in developing this section. Also see INTOSAI Standard ISSAI 300, paragraph 33, and INTOSAI Guidance GUID 3910, paragraphs 109-113.

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- A36. Impacts may include negative and positive impacts, could be intended or unintended and may impact the short-term or long-term. The assurance practitioner also takes into account that impacts may change over time as activities and context evolve.
- A37. What is considered significant will depend on the perspective of the intended users, which may vary over time. In identifying individuals and groups whose interests are or could be affected by the assurance report, the assurance practitioner also takes into account that intended users may include individuals or groups who may not be able to articulate their views (for example, future generations) but whose interests are affected or could be affected. For the same engagement, the intended users may also be different for each of the identified criteria.
- A38. It may not always be possible for the assurance practitioner to identify all those who will read the assurance report, particularly where the assurance report is publicly available. In such cases, particularly when potential users are likely to have a broad range of interests in the assurance report, intended users may be limited to major stakeholders with significant and common interests. In the public sector, Parliament and the responsible party is likely to be the primary users of assurance reports on performance prepared by Auditors-General. Other major stakeholders may include, government, regulators, lobby groups and representative organisations.
- A39. When communicating significant variations in assurance reports, it may not always be reasonable for the assurance practitioner to assume that all of the intended users, such as members of Parliament or the general public:
- (a) have a reasonable knowledge of the activity or a willingness to study the assurance report with reasonable diligence;
 - (b) understand that the assurance practitioner has applied the concept of significance in evaluating and obtaining assurance regarding the activity's performance, and have an understanding of any significance concepts included in the identified criteria; and
 - (c) understand any inherent uncertainties involved in evaluating the activity's performance.

Unless the performance engagement has been designed to meet the particular information needs of specific users, the possible effect of variations in performance on specific users whose information needs may vary widely, is not ordinarily considered.

- A40. Professional judgements about significance are made in light of surrounding circumstances but are not affected by the level of assurance. That is, for the same intended users and purpose, the assurance practitioner applies the same considerations in both limited assurance and reasonable assurance engagements when considering the significance of matters.
- A41. Due to the importance of using professional judgement in considering the significance of matters and concluding on significant findings, the assurance practitioner's documentation should be sufficiently complete and detailed, and include the rationale in support of any judgements made and conclusions reached.

Consideration of significance when selecting activities to examine

- A42. Effective performance engagements may have considerable impact. Assurance reports on performance provide new information, analysis or insights and, where appropriate, recommendations for improvement. In the public sector, this information may play a role in improving public sector performance and supporting accountability and transparency.
- A43. A significant activity is one that the assurance practitioner judges:
- (a) to be important to the intended users of an assurance report on the activity's performance; and

- (b) for which new insights or more accessible information may influence the decisions made by those users.
- A44. The process to evaluate and select activities for examination, may include the following steps:
- (a) identify actual and potential impacts of the activity and the engagement;
 - (b) assess the significance of the impacts applying suitable criteria; and
 - (c) prioritise the impacts based on their significance.
- A45. To understand the significance of an activity, the assurance practitioner may perform quantitative and qualitative analysis. The practitioner may also need to consult with relevant internal or external experts and relevant stakeholders.
- A46. The assurance practitioner may assess the significance of, and risks associated with, public sector activities and prioritise engagements by considering factors such as:
- Economic and financial magnitude—the economic contribution or impact of the activity may be significant.
 - Social, public safety, political and/or environmental impact—activities affecting a large segment of the population or vulnerable sections of a population, or which may impact environmental sustainability, may be judged to be more significant.
 - Visibility—the extent of interest shown in an activity or aspects of an activity by, for example, the legislature, regulatory bodies or the public, may indicate the importance of the activity to users. For example, a large number of complaints relating to the activity.
 - Nature, size and complexity of the activity—an increase in the complexity of an entity’s activities, for example, increased variety and type of operations, functions and programmes may increase the risk that the entity does not achieve its objectives and goals or that they are not achieved in an efficient or economical manner.
 - Likely impact of the performance engagement (added value expected from the engagement)—engagements that offer more opportunities to have an impact, may be prioritised.
 - Impact of the activity or failure of an activity on other areas within government, including in the areas of compliance, governance, transparency and accountability.

Significance in planning and performing the engagement

- A47. Given limited resources and time, a performance engagement cannot focus equally on all aspects of a significant activity’s performance during the engagement. Understanding what aspects of the activity’s performance may be significant to the intended users may assist the assurance practitioner in focusing their efforts and in applying professional judgement when considering the significance of any identified variations in performance.
- A48. Scoping the proposed engagement to focus on significant aspects of the activity’s performance, that is, the areas which will potentially add the most value, will support the development of an engagement objective(s).
- A49. For a performance engagement to be efficient and effective, which in this context means concluding against the engagement objective(s) and satisfying the needs of the intended users, it is important that the assurance practitioner assess and prioritise the most appropriate questions (lines of enquiry) and criteria to examine. For example, they may assess the risk of significant variations as either high, medium or low for each potential question/criteria. This assessment will require a good understanding of the activity and the information needs of the intended users of the assurance report.

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- A50. In some instances, there may be no tolerance for variations in relation to significant criteria.
- A51. In conducting the performance engagement, the assurance practitioner considers the significance of the information that is being collected and the potential results of the analysis undertaken. The practitioner applies professional judgement to ensure that work is focused on significant aspects of the activity's performance being examined.

Significance in formulating and reporting findings, conclusions and recommendations

- A52. During the reporting phase of the engagement, the assurance practitioner uses professional judgement to decide which findings are of such significance to include in the assurance report. While all identified variations may be reported to the responsible party, the assurance report should only include significant findings, that is, those that have a bearing on the conclusion and the reader's use of the report.
- A53. An identified variation in the activity's performance against the identified criteria may be considered significant when, in the assurance practitioner's judgement, information about the variation could reasonably be expected to influence decisions made by intended users of the assurance report. What is relevant to report users is the consequence(s) of a finding (that is, the size and severity of the impact or potential impact of the finding) and cause (why it happened).
- A54. Individual variations in performance identified during the engagement (other than those that are clearly trivial) may have characteristics, for example, a root cause or a systemic issue, that indicate the combined effect of individual variations is likely to be significant.
- A55. The assurance practitioner may take the following factors into account when determining whether a variation constitutes a significant variation from the identified criteria:
- The number of persons or entities impacted.
 - The economic, social, political and environmental impact of an activity. Where there is broader societal interest in an activity or where the activity could present a significant risk to the public, for example, where the health or safety of the general public or vulnerable groups is affected, the tolerance for variations in performance may be less.
 - Whether a variation is the result of an intentional act or is unintentional.
 - Whether a variation affects compliance with law or regulation.
 - Whether a variation relates to transparency or accountability.
 - If the likely cost of correcting an issue is greater than the benefit to be derived, significance may be questionable.
 - Minor variations from several criteria may signal minor problems or may be indicative of a problem (or theme) of greater significance that may need to be reported as a significant variation.
 - The nature of a variation, for example, the nature of observed variations from a control relevant to the activity's performance.
 - Whether a variation is significant having regard to the assurance practitioner's understanding of known previous communications to users, for example, in relation to the expected outcome of the evaluation of the activity's performance.
 - Whether a variation relates to the relationship between the responsible party and the engaging party, or their relationship with other parties.

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- When a threshold or benchmark value has been identified, whether the result of the procedure deviates from that value.
- When the activity is a governmental program or public sector entity, whether a particular finding is significant with regard to the nature, visibility and sensitivity of the program or entity.

Risk Procedures and Related Activities (Ref: Para 18(s), 34-40)

Understanding the Activity and Other Performance Engagement Circumstances (Ref: Para 34)

A56. Obtaining an understanding of the activity and other performance engagement circumstances is an essential part of planning and conducting the performance engagement. It provides the assurance practitioner with a frame of reference for exercising professional judgement throughout the engagement. For example, when:

- Defining a rational engagement objective and suitable evaluation criteria.
- Determining whether evidence needed to support the practitioner's conclusion is available.
- Understanding the implications of applicable laws and regulations on the activity's performance.
- Considering the factors that, in the assurance practitioner's professional judgement, are important in directing the engagement team's efforts, including where special consideration may be necessary (for example, the need for specialised skills or the work of an expert).
- Establishing and evaluating the continued appropriateness of quantitative and qualitative factors that may impact the assurance practitioner's consideration of significance.
- Developing expectations to be applied when undertaking analytical procedures.
- Using data analysis tools to undertake the engagement.
- Requesting evidence that is relevant to the engagement objective(s) and identified criteria.
- Evaluating evidence, including the reasonableness of the responsible party's oral and written representations.
- Designing and undertaking further evidence-gathering procedures to reduce the risk of an incorrect conclusion to an acceptable low level.
- Reporting the findings, conclusions and recommendations in an assurance report.

A57. The assurance practitioner ordinarily has a lesser depth of understanding of the activity and other engagement circumstances than the responsible party. The assurance practitioner also ordinarily has a lesser depth of understanding of the activity and other engagement circumstances for a limited assurance engagement than for a reasonable assurance engagement. This will have the following implications:

- (a) For a limited assurance engagement, the assurance practitioner obtains an understanding of the activity sufficiently to identify areas where a significant variation in the activity's performance is most likely to arise. In a reasonable assurance engagement, a more in-depth understanding is required to both identify and assess the risks of significant variation. The assurance practitioner will use professional judgement to determine whether enough has been done to obtain and document the necessary understanding given the level of assurance.

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- (b) Although in some limited assurance engagements the practitioner may identify or obtain an understanding of internal controls relevant to the activity's performance, this is often not the case.

Enquiries and Discussion with Appropriate Parties (Ref: Para 35(a))

- A58. Although the assurance practitioner is not required to perform any further procedures regarding an entity's compliance with laws and regulations in addition to that specified in paragraph 35(a) of this ASAE, the practitioner shall remain alert to the possibility that procedures performed during the engagement may bring instances of non-compliance or suspected non-compliance with laws and regulations to the practitioner's attention. The assurance practitioner may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations.³⁵

Designing and Performing Risk Procedures (Ref: Para 36-40)

- A59. The engagement circumstances affect the degree to which each of the components of engagement risk is relevant to the engagement, in particular:
- The nature of the activity reported on. For example, the concept of control risk may be more relevant for engagement objectives related to the effectiveness/efficiency of a system or process (for example to monitor and report on performance), than for objectives related to the outcome of a program or process or the existence of a physical condition.
 - Whether a reasonable assurance or a limited assurance engagement is being performed. For example, in limited assurance engagements the assurance practitioner may often decide to obtain evidence by means other than testing of controls, in which case consideration of control risk may be less relevant than in a reasonable assurance engagement to report on the same activity's performance.
- A60. Risk procedures are part of an iterative and dynamic process. Initial expectations may be developed about areas where significant variations are likely to arise (in a limited assurance engagement) or risks of significant variation (in a reasonable assurance engagement), which may be further refined as the assurance practitioner progresses through the engagement, or if new information is obtained. Risk procedures by themselves do not provide sufficient appropriate evidence on which to base the assurance conclusion.
- A61. The assurance practitioner may perform further procedures (see 'Designing and Performing Further Procedures' below) concurrently with risk procedures when it is efficient to do so.
- A62. The nature and extent of risk procedures will vary based on the nature and circumstances of the entity (for example, the formality of the entity's policies or procedures, processes and systems), the nature and complexity of the activity, the identified criteria, and the characteristics of the events or conditions that could give rise to significant variations. The practitioner uses professional judgement to determine the nature and extent of the risk procedures to be performed to meet the objectives of this ASAE to the level of assurance to be obtained.
- A63. Risk procedures may include the following:
- (a) Enquiries of parties as appropriate to the scope of the performance engagement and other engagement circumstances;
 - (b) Analytical procedures;
 - (c) Observation; and

³⁵ See ASAE 3000, paragraphs A102 and A195-A199.

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(d) Inspection.

A64L. In a limited assurance engagement, identifying the areas where a significant variation in the activity's performance is likely to arise enables the assurance practitioner to focus procedures on those areas. Risk procedures for a limited assurance engagement would ordinarily be limited to enquiries of appropriate parties, analytical procedures and necessary documentation review. However, there may be circumstances where the assurance practitioner may consider it effective or efficient to design and perform other procedures.

A65L. In rare circumstances, the assurance practitioner's risk procedures may not identify any areas where a significant variation is likely to arise. Irrespective of whether any such areas have been identified, the practitioner is required to design and perform procedures to obtain a meaningful level of assurance³⁶. In such cases, the practitioner may perform additional risk procedures or design and perform further procedures in relation to significant areas of the engagement.

A66. Based on the risk procedures performed, the assurance practitioner will be able to make an informed decision about whether the identified criteria are best addressed using a limited or reasonable assurance approach. For example, where risk procedures identify significant levels of engagement risk, a limited assurance engagement may not be suitable because:

- a limited level of assurance may not be meaningful to the users of the assurance report; or
- there may no longer be an efficiency advantage for the assurance practitioner in performing a limited assurance engagement because the assurance practitioner may have to perform considerable additional work under paragraph 43 of this ASAE where the practitioner believes that there may be a significant variation in the activity's performance. In these circumstances the assurance practitioner may consider whether a reasonable assurance engagement will be more effective. This change in approach would be communicated through the engagement strategy.

Understanding Internal Controls Relevant to the Performance Engagement (Ref: Para 37-39)

A67. Internal controls are processes designed, implemented and maintained by those charged with governance, management and other personnel to mitigate the risks which may prevent achievement of objectives relating to an entity and its operations, compliance or reporting.

A68. The assurance practitioner's understanding of the entity's system of internal control provides a preliminary understanding of how the entity identifies business risks and how it responds to them. It may also influence the practitioner's identification and assessment of the risks of significant variation. This assists the practitioner in designing and performing further procedures, including any plans to test the operating effectiveness of controls.

A69. In the context of a performance engagement, a relevant internal control is one designed to address (mitigate) the risks of significant variation in the activity's performance. A relevant internal control may include components of the control environment, the entity's risk assessment process, the entity's process for monitoring its system of internal control, the information system and communication, and specific control activities designed to mitigate specific risks. Professional judgment is needed to determine which controls are relevant in the engagement circumstances.

A70. Internal controls relevant to an activity's performance may include controls that pervasively impact an entity's operations (indirect entity-level controls). Whether such controls are relevant, will likely depend on the engagement objective(s). For example, when the objective of an engagement is the effectiveness of the administration of grants for a public sector entity, internal control over human resources management may not be relevant to the performance

³⁶ For further guidance on what constitutes a meaningful level of assurance, refer to ASAE 3000, paragraphs A4-A7.

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engagement. If the assurance practitioner's intention is to rely on the entity's grants payment system, internal control related to the entity's information system and information technology may be relevant to such an engagement.

- A71. In other situations, internal controls relevant to the engagement may be direct controls designed to mitigate the risks of significant variations from the identified criteria, such as authorisations and approvals, reconciliations, verifications (such as edit and validation checks or automated calculations), segregation of duties, and physical or logical controls, including those addressing safeguarding of assets. For example, a control to ensure contract variations are approved by an appropriate delegate may be relevant when conducting a performance engagement to examine whether procurements of office furniture have been consistent with a government's procurement rules and are achieving value for money.
- A72. When the objective of a performance engagement is to conclude on a specific outcome of a program or process, examination of internal control at either the entity wide level or activity level may not be relevant to that engagement. For example, an assurance engagement may be designed to reach a conclusion regarding whether the time taken to process specific items (for example, applications to receive a service) over a specified period of time exceeds what is permitted under stated policies. The practitioner might simply examine all the items processed during the specified period and conclude on whether there were significant variations from the stated policies.
- A73. When the objective of a performance engagement requires the design or implementation of internal controls over a process to be assessed (for example, a process for dealing with patients in a hospital emergency room), the assurance practitioner's expectations for the effective design and implementation of the internal controls is likely to be a criterion.
- A74. When internal controls are judged to be relevant to a performance engagement, the assurance practitioner's understanding of controls includes identifying controls designed to mitigate the risk of significant variations identified as part of the assurance practitioner's risk assessment. The aim is to identify controls that, if ineffective, will create a higher risk of significant variation.
- A75. The assurance practitioner may plan to obtain evidence by testing the operating effectiveness of identified controls, for example, where such an approach is considered to be more effective or efficient for large volumes of homogenous transactions. The assurance practitioner may also identify risks of significant variation for which it is not possible to obtain sufficient appropriate evidence through substantive procedures alone.
- A76. The practitioner is not required to evaluate the design of controls and to determine whether they have been implemented unless the practitioner plans to obtain evidence by testing their operating effectiveness.
- A77R. Risk procedures to obtain an understanding about control design and implementation for a reasonable assurance engagement may include:
- Enquiring with the responsible party's personnel;
 - Observing the application of specific controls;
 - Inspecting documents and reports; and
 - Performing walk-throughs.
- Enquiry alone is not sufficient for such purposes.
- A78L. In a limited assurance engagement it will often not be necessary to obtain a detailed understanding of internal controls and the procedures to obtain the understanding may be less in extent, and of a different nature, than those required in a reasonable assurance engagement. For example, in a limited assurance engagement, the assurance practitioner may obtain a

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sufficient understanding through enquiry but may need to perform a walk-through in a reasonable assurance engagement.

- A79. Evaluating the design of a control involves the assurance practitioner's consideration of whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, significant variations.
- A80. The assurance practitioner determines the implementation of an identified control by establishing that the control exists and that the entity is using it. There is little point in the practitioner assessing the implementation of a control that is not designed effectively. To determine if the controls have been implemented, the practitioner may perform walk-throughs or observe the control being performed by, for example, the responsible party's personnel. The assurance practitioner often evaluates control design and implementation at the same time.
- A81. The practitioner may conclude that a control is effectively designed and implemented. It is then appropriate to design and perform further procedures to test its operating effectiveness in order to determine the nature, timing and extent of other assurance procedures. However, when a control is not designed or implemented effectively, there may be no benefit in testing it.
- A82. Evaluating the design and determining the implementation of controls is not sufficient to test their operating effectiveness.

Designing and Performing Further Procedures (Ref: Para 41-46)

- A83. Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability. The assurance practitioner 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 practitioner uses professional judgement and exercises professional scepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the conclusions in the assurance report.³⁷
- A84. Performance engagements require the application of assurance skills and techniques and the gathering of sufficient appropriate evidence as part of an iterative, systematic assurance engagement process. For further guidance on the nature, timing and extent of evidence-gathering procedures for performance engagements, refer to ASAE 3000.³⁸
- A85L. The evidence required in a limited assurance engagement would ordinarily be limited to that obtained by enquiry, analytical procedures and necessary documentation review. In contrast to a reasonable assurance engagement, the assurance practitioner in a limited assurance engagement would not ordinarily seek to corroborate evidence obtained, as long as the information obtained from applying assurance procedures appears plausible in the circumstances, as judged by the practitioner. In circumstances where the practitioner is not satisfied of the plausibility of the initial evidence collected, it may be necessary to seek corroboration of evidence or to conduct more detailed procedures.
- A86L. In considering the plausibility of evidence obtained, the assurance practitioner may consider, for example, whether the evidence:
- (a) is consistent with the practitioner's knowledge and understanding of the entity and activity subject to the engagement, and other evidence obtained during the course of conducting the engagement; and
 - (b) reasonably demonstrates that the criteria of the engagement have been met or not met.

³⁷ See ASAE 3000, paragraphs A147-A158.

³⁸ See ASAE 3000, paragraphs A109-A118.

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A87L. While enquiry is a key procedure in the conduct of a limited assurance engagement, the assurance practitioner is still required to exercise professional scepticism. This means that the documentation of enquiries cannot simply restate the matters discussed but rather should demonstrate the basis on which the assurance practitioner has considered and accepted the evidence as plausible in the circumstances.

A88. Under ASAE 3000³⁹ it may not be appropriate for a reasonable assurance engagement that has commenced to be reduced to limited assurance, without reasonable justification. ASAE 3000 notes an inability to obtain sufficient appropriate evidence to support a reasonable assurance conclusion, is not an acceptable reason to change from a reasonable assurance engagement to a limited assurance engagement. In these circumstances the assurance practitioner may consider withdrawing from the engagement or issue a modified conclusion.

Performing Modified and/or Additional Procedures in a Limited Assurance Engagement (Ref: Para 43L)

A89L. If, in the case of a limited assurance engagement, the assurance practitioner becomes aware of a matter that leads the assurance practitioner to believe that there may be a significant variation in the activity's performance, the practitioner is required by paragraph 43L of this ASAE to design and perform modified and/or additional procedures to obtain further evidence, until the practitioner is able to form a conclusion that either:

- (a) the matter is not likely to result in a significant variation in the activity's performance; or
- (b) a significant variation in the activity's performance exists.

A90L. The modified/additional procedures may include additional enquiry and/or more detailed analytical procedures. The assurance practitioner may also deem it necessary to apply procedures normally used in undertaking a reasonable assurance engagement, which may necessitate detailed transactional or data testing. The fact that the assurance practitioner performs modified/additional procedures does not alter the assurance practitioner's objective of obtaining limited assurance in relation to the activity's performance.

A91L. If, after having performed the modified/additional procedures the assurance practitioner is unable to achieve either of the outcomes in paragraph 43L, a scope limitation exists and the practitioner will issue, as appropriate, a qualified conclusion, disclaim a conclusion, or withdraw from the engagement, where withdrawal is possible under applicable law or regulation.

Written Representations (Ref: Para 46)

A92. If the performance engagement is initiated by the assurance practitioner, the assurance practitioner may not be in a position to obtain representations from the responsible party, particularly as the responsible party may not be a party to the performance engagement.

A93. Representations by the responsible party cannot replace other evidence the assurance practitioner could reasonably expect to be available. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a significant effect on the evaluation of the activity's performance, when such evidence would ordinarily be available, constitutes a limitation on the scope of the performance engagement, even if a representation from the responsible party has been received on the activity.

A94. Written representations may include that the responsible party:

- (a) acknowledges its responsibility for conducting the activity, intended to achieve a certain level of performance;

³⁹ See ASAE 3000, paragraphs 29.

- (b) has provided the assurance practitioner with all relevant information and access agreed to, as set out in paragraph A8;
- (c) has disclosed to the assurance practitioner any of the following of which it is aware may be relevant to the performance engagement:
 - (i) variations in achievement of intended performance; or
 - (ii) any events subsequent to the period covered by the assurance practitioner's report up to the date of the assurance report that could have a significant effect on the assurance practitioner's report.

Evaluating the Impact of Identified Variations (Ref: Para 47-48)

A95. The assurance practitioner considers the impact of identified variations to assess the overall significance of the findings against the identified criteria, in order to form a conclusion about whether the engagement objective(s) have been achieved. An identified variation in an activity's performance against the identified criteria may be considered significant when, in the assurance practitioner's judgement, information about the variation could reasonably be expected to influence decisions made by intended users of the assurance report. What is relevant to report users is the consequences of a finding (that is, the size and severity of the impact or potential impact of the finding) and cause (why it happened).

For further guidance on factors the assurance practitioner may take into account when evaluating the significance of findings, refer to A31-A41, A52-A55.

Subsequent Events (Ref: Para 49)

- A96. The extent of consideration of subsequent events that come to the attention of the assurance practitioner depends on the potential for such events to affect the activity's performance and to affect the appropriateness of the assurance practitioner's conclusions. Consideration of subsequent events in some performance engagements may not be relevant because of the nature of the activity.
- A97. The assurance practitioner does not have any responsibility to perform procedures or make any enquiry after the date of the report. However, if after the date of the report the assurance practitioner becomes aware of a matter identified, the assurance practitioner may consider re-issuing the report. In a performance engagement the new report discusses the reason for the new report under a heading "Subsequent Events".

Forming the Assurance Conclusion (Ref: Para 50-51, 55(f)-(h))

- A98. The assurance practitioner's conclusion directly addresses the question of whether or not the engagement objective has been met and, if not, is specific about the findings that resulted in exceptions to the conclusion, including the causes and consequences. The conclusion presents the assurance practitioner's overall view and goes beyond merely restating or summarising the findings. Whereas findings are identified by comparing 'what should be', in accordance with the evaluation criteria identified for the engagement (the required or desired performance), with evidence on 'what is' (the actual performance), the assurance practitioner's conclusion reflects the practitioner's explanations and views based on these findings. The assurance practitioner's conclusion clarifies and add meaning to the specific findings in the report.⁴⁰ (Ref: Appendix 2)
- A99. In forming the conclusion, the assurance practitioner evaluates the sufficiency and appropriateness of the evidence obtained.⁴¹ The practitioner also assesses the significance of the findings in relation to the engagement objective(s). Evaluating whether sufficient

⁴⁰ For further guidance on the process of developing conclusions, see INTOSAI Guidance GUID 3920, paragraphs 78-98.

⁴¹ See ASAE 3000, paragraphs A154-A158.

appropriate evidence has been obtained, and whether more needs to be done to achieve the objectives of this ASAE, requires professional judgement.

A100L. The level of assurance in a limited assurance engagement is not easily quantified. Professional judgement is required in evaluating whether a meaningful level of assurance has been obtained. What is meaningful may vary from just above more than inconsequential to just below reasonable assurance. What is meaningful in a particular engagement represents a judgement within that range that depends on the engagement circumstances, including the information needs of the intended users, the identified criteria, and the nature of the subject matter. Because the level of assurance obtained in limited assurance engagements varies, it is important that the assurance report includes an informative summary of the procedures performed, recognising that an appreciation of the nature, timing, and extent of procedures performed is essential to understanding the assurance practitioner's conclusion. (Ref: Para 18(l), 55(i))

Preparing the Assurance Report (Ref: Para 52-59)

A101. The assurance report is the means by which the assurance practitioner communicates the outcome of the direct engagement, which includes the assurance practitioner's conclusion, findings and recommendations (if any), to the intended users. Clear communication helps the intended users to understand the assurance conclusion.

A102. The assurance practitioner considers which report structure will be most effective to communicate the outcome of the performance engagement. To effectively add value and maximise impact, it is important that the assurance report is comprehensive, convincing, timely, reader friendly and balanced:⁴²

Comprehensive

The assurance report does not have to contain all the information collected and analysed during the engagement to be comprehensive. However, the report includes all the information and arguments the assurance practitioner judges are necessary to address the engagement objective(s), while being sufficiently detailed to help the reader understand the significance of the conclusion and findings discussed in the report.

Convincing

To be convincing, the assurance report is structured in a logical manner to present a clear relationship between the engagement objective(s), identified criteria, findings, conclusion(s) and recommendations (if any). The assurance practitioner aims to present the findings accurately, addressing all relevant arguments to the discussion. Accuracy assures readers that what is reported is credible and reliable.

Timely

To be of maximum use, the assurance report is issued in time to respond to the needs of the intended users. If permitted, the assurance practitioner may provide interim reports of significant matters to responsible parties to highlight matters that may need immediate attention.

Reader friendly

The assurance report is likely to have a greater impact when it is reader friendly. It is therefore important that the assurance report is clear, concise, logical and focused on the engagement objective(s). The assurance practitioner considers using simple and unambiguous language to the extent permitted by the subject matter. Busy readers may not read reports from beginning to end and may instead focus on a contents page, headings and subheadings,

⁴² For further guidance, refer to INTOSAI Standard ISSAI 3000, paragraphs 116-128 and INTOSAI Guidance GUID 3920, paragraphs 106-124.

an executive summary, conclusions, significant findings and recommendations (if any). The practitioner may consider using typographical devices (for example, the bolding of text) and other mechanisms (for example, illustrations, figures and tables) to improve clarity and which may assist in better communicating key messages. Where the report includes technical terms and concepts, it may be helpful to the reader if explanations are provided in a glossary or footnotes.

Balanced

A balanced report is impartial in content and tone, presents different perspectives and viewpoints, and includes both positive and negative aspects of the performance being evaluated. Evidence is presented and interpreted in an unbiased manner. By explaining the causes and the consequences of reported findings, users may better understand their significance. This may encourage corrective action and lead to improvements in performance.

- A103. There may be circumstances where an Auditor-General, having conducted a performance engagement, decides not to report to Parliament or to publish an assurance report. The Auditor-General usually has discretion under their mandate to choose whether and to whom they will report on performance engagements. Assurance reports which are tabled in Parliament become available to the public. In certain circumstances it may be necessary for the confidentiality of the assurance report to be maintained, in which case the report may, in accordance with relevant legislation be provided to the relevant Parliamentary Committee or other appropriate user, in confidence. The Auditor-General considers the public interest in determining whether the assurance report will be made publicly available.

Assurance Report Content (Ref: Para 55-59)

- A104. This ASAE does not require a standardised format for reporting on performance engagements. Instead, it identifies the basic elements the assurance report is to include, whether in an executive summary, the main body of the report or in an appendix to the report. The format of the assurance report may differ depending on whether the assurance practitioner is an Auditor-General reporting to Parliament pursuant to their legislative mandate, or a practitioner engaged to perform a performance engagement in the private sector.
- A105. Assurance reports are tailored to the specific performance engagement circumstances and needs of intended users. The assurance practitioner uses professional judgement in deciding how best to meet the reporting requirements detailed in paragraph 55 in reporting conclusion(s), findings and recommendations (if any). The assurance practitioner includes the matters in paragraph 55 as a minimum and reports in the manner and to the extent necessary to facilitate effective communication to the intended users.
- A106. To maximise impact, the assurance practitioner may consider including an executive summary in the assurance report which may include, for example:
- (a) the scope of the engagement;
 - (b) the engagement objective(s);
 - (c) the evaluation criteria;
 - (d) the assurance practitioner's overall conclusion(s) against the engagement objective(s);
 - (e) key findings; and
 - (f) recommendations (if any);
- A107. The purpose of the main body of the assurance report is to substantiate the key findings of the engagement that support the assurance practitioner's conclusion(s) and recommendations (if any). The engagement findings have to be put into context, and congruence has to be established between the engagement objective(s), conclusions and findings.

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A108. For reasons of transparency and accountability, the assurance practitioner may expand the assurance report to include other information and explanations, in addition to the basic elements identified in paragraph 55, including:

- The terms of the engagement.
- Relevant background information and historical context.
- In addition to the overall objective(s), also identify sub-objectives/questions (or lines of enquiry).
- In addition to the overall criteria, also identify sub-criteria.
- The assurance approach/methodology.
- Assurance-specific methods of data-collection and analysis applied.
- Sources of data.
- Factors relevant to the practitioner's consideration of significance.
- Analysis of the causes of variations in the activity's performance.
- Comments received in response to the report from the responsible party.

A109. The decision to include information in addition to the basic elements identified in paragraph 55 depends on its significance to the needs of the intended users. To effectively communicate the conclusion and key findings, and not detract from key messages in the assurance report, the assurance practitioner may consider including such information in appendices to the assurance report.

A110. Depending on the circumstances, the assurance practitioner may consider alternative structures to be more appropriate, for example, chronological or entity by entity.

Identified Criteria and their Sources (Ref: Para 18(e), 55(c)(iii))

A111. As the intended users' confidence in the findings and conclusions depends largely on the criteria used to evaluate the activity's performance, it is essential that the assurance report identify the criteria used to evaluate performance, as well as their sources. This will include specifying the party responsible for those criteria, if it was not the assurance practitioner.

Findings (Ref: Para 55(g)(i), 55(h)(i))

A112. While the format and style of assurance reports may vary, effective reporting of findings will normally contain the following elements as a minimum:

- (a) identification of the evaluation criteria (the required or desired performance);
- (b) evidence (the actual performance, both positive and negative);
- (c) causes (identify the root cause of problems or observations); and
- (d) consequences, that is, why the reader should care about the finding (that is, the size and severity of the impact or potential impact of the finding).

A113. Including an explanation of the causes and consequences of a finding will allow users to better understand the significance of findings (and any related recommendations) and may encourage corrective action to be taken, which may lead to improvements in performance.

Conclusion(s) (Ref: Para 55(f)-(h), A100L)

A114. The assurance conclusion is not a summary of findings but rather expresses a clear conclusion against the engagement objective based on the findings. The conclusion directly addresses the

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question of whether or not the objective of the engagement has been met and, if not, should ideally be specific about the findings that resulted in exceptions to the conclusion. The conclusion is written in a manner that is likely to enhance the degree of confidence of the intended users about the evaluation of the activity's performance against the identified criteria.⁴³ The user may benefit from seeing a summary of the key findings which support the conclusion in close proximity to the overall conclusion.

- A115. The level of assurance obtained/provided by the assurance practitioner should be clear from the report. A performance engagement may have more than one overall engagement objective and the assurance practitioner may need to express a conclusion against each objective. There may also be circumstances where a performance engagement may have several overall engagement objectives with a conclusion for each expressing a different level of assurance.⁴⁴ Each conclusion would need to be expressed either in the form appropriate for a reasonable assurance engagement (expressed in positive form) or limited assurance engagement (expressed in negative form). (Ref: Para 55(d))
- A116. When the assurance practitioner was unable to obtain sufficient appropriate evidence (a scope limitation exists), the assurance practitioner's conclusion clearly reflects that either:
- (a) the practitioner was unable to conclude against certain identified criteria, or certain engagement objectives or sub-objectives — when the assurance practitioner was unable to obtain sufficient appropriate evidence regarding certain aspects of the responsible party's performance of the activity (a qualified "except for" conclusion); or (Ref: Para 55(g)(ii)a)
 - (b) the practitioner was unable to conclude on the activity's performance overall — when the assurance practitioner was unable to obtain sufficient appropriate evidence regarding the responsible party's performance of the activity as a whole (a disclaimer of conclusion). (Ref: Para 55(g)(ii)b)
- A117. When the assurance practitioner has identified significant variations in the activity's performance, the assurance practitioner's conclusion clearly reflects that either:
- (a) the responsible party did not perform the activity in accordance with the identified criteria, or certain engagement objectives or sub-objectives (a qualified "except for" conclusion); or (Ref: Para 55(h)(ii)a)
 - (b) the responsible party did not perform the activity in accordance with the identified criteria, or the engagement objective(s), as a whole (an adverse conclusion). (Ref: Para 55(h)(ii)b)
- A118L. The conclusion for a limited assurance engagement is expressed in negative form, that is, "... based on the procedures performed and evidence obtained, nothing has come to our/my attention ...". When the assurance practitioner has identified significant variations from the identified criteria, the practitioner issues a modified conclusion in line with paragraph 55(h) (adverse or qualified conclusion) — for example, "... based on the procedures performed and evidence obtained, nothing has come to our/my attention ..., except for ..." (qualified conclusion). To help users recognise and understand a limited assurance report, there are specific reporting requirements related to the summary of work performed and the conclusion, as outlined in paragraph 55.
- Basis for Conclusion(s)* (Ref: Para 55(i))
- A119. Depending on the legislative mandate that applies in each jurisdiction, Auditors-General may be required to either:

⁴³ See INTOSAI GUID 3910, paragraphs 27-32.

⁴⁴ The assurance practitioner considers whether it would be confusing and difficult for the users of the report to interpret different levels of assurance included in the same assurance report.

Standard on Assurance Engagements ASAE 3500
Performance Engagements

- (a) conduct public sector performance engagements in accordance with ASAE 3500;
- (b) have regard to ASAE 3500; or
- (c) set their own audit and assurance standards which may incorporate ASAE 3500.

Where the assurance report includes a statement that the performance engagement has been conducted in accordance with ASAE 3500, it implies the practitioner has complied with all the requirements of this ASAE that are relevant to the engagement.

A120L. The summary of the work performed helps the intended users understand the assurance practitioner's conclusion. In a limited assurance engagement, the summary of the work performed may be more detailed than for a reasonable assurance engagement. This is because an appreciation of the nature, timing and extent of procedures performed is essential to understanding a conclusion expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a significant matter(s) has come to the practitioner's attention to cause the practitioner to believe that the responsible party did not perform the activity in accordance with the identified criteria. It may be appropriate to indicate in the summary of the work performed certain procedures that were not performed, that would ordinarily be expected to be performed in a reasonable assurance engagement.⁴⁵

Recommendations (Ref: Para 56)

A121. A constructive recommendation is one that is relevant, practical, measurable, attainable, and likely to contribute significantly to addressing the issues identified by the engagement. Recommendations would ordinarily follow logically from the facts and arguments presented in the assurance report. For Auditors-General, the making of recommendations would be dependent upon their legislative mandates. If no recommendations are relevant, or if only key recommendations are included in the assurance report, the report includes a statement to explain this.

Documentation (Ref: Para 63)

A122. Documentation includes a record of the assurance practitioner's reasoning on all significant matters that require the exercise of professional judgement, and related 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 practitioner at the time the conclusion was reached.

A123. In applying professional judgement to assessing the extent of documentation to be prepared and retained, the assurance practitioner may consider what is necessary to provide an understanding of the work undertaken, and the basis of the principal decisions made, to another experienced assurance practitioner who has no previous connection with the performance engagement. It is neither necessary nor practicable to document every matter the assurance practitioner considers during the performance engagement.⁴⁶

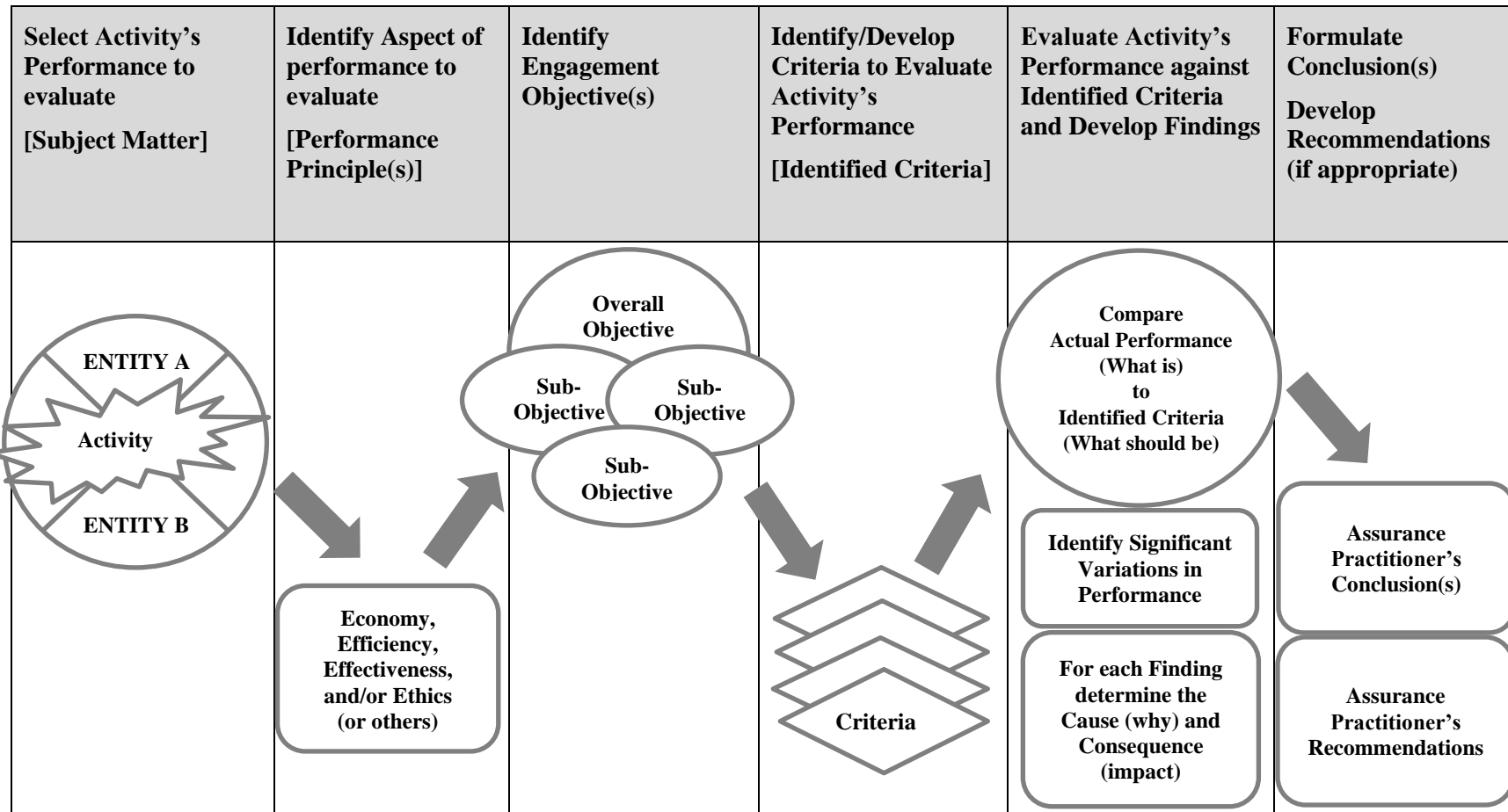
⁴⁵ See ASAE 3000, paragraphs A174-A178.

⁴⁶ See ASAE 3000, paragraphs A200-A207, for further guidance and examples of documentation.

Appendix 1

(Ref: Para 7)

The Nature of A Performance Engagement



Example of a Performance Engagement

The following example demonstrates the alignment between the engagement objective, evaluation criteria, findings and conclusion in a performance engagement. The example has been simplified to show this alignment.

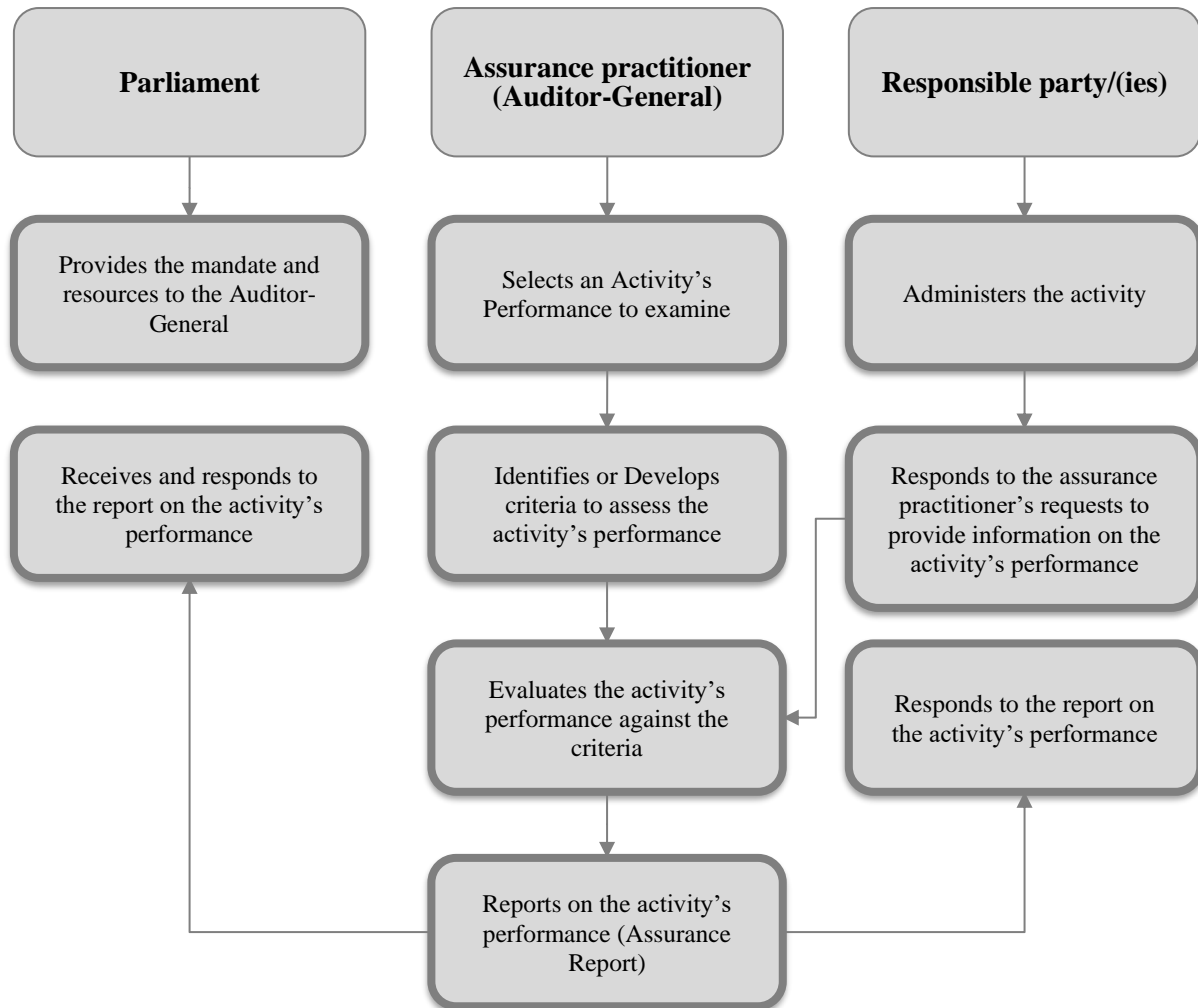
Activity's Performance Evaluated (Subject Matter)	Management of existing pests		
Performance Principle Tested	Effectiveness		
Engagement Objective	To determine whether the responsible entity managed existing pests effectively OR Does the responsible entity effectively manage existing pests?		
Sub-objectives	A. Existence of a Framework for Management of Existing Pests	B. Cooperation between the Responsible Entity and Landholders	C. Pest Control Activities
Identified Criteria	Is the Framework: <ul style="list-style-type: none"> • Comprehensive? • Current? • Well communicated? • Well understood? 	<ol style="list-style-type: none"> 1. Are all relevant parties identified? 2. Are relevant parties' responsibilities and accountabilities defined? 3. Do relevant parties understand and accept their roles? 4. Are relevant parties' roles commensurate with their resources? 5. Is there a properly constituted governing body that meets regularly? 	<ol style="list-style-type: none"> 1. Are the controls designed and implemented to respond to the identified risk? 2. Did the controls operate effectively over the period covered by the audit?

Standard on Assurance Engagements ASAE 3500
Performance Engagements

Sub-objectives	A. Existence of a Framework for Management of Existing Pests	B. Cooperation between the Responsible Entity and Landholders	C. Pest Control Activities
Findings based on the Assurance Practitioner’s Evaluation of the Activity’s Performance against the Identified Criteria	<p>The Framework was comprehensive and current but:</p> <ul style="list-style-type: none"> • The responsible entity has not effectively communicated it. • Stakeholders did not understand it. 	<p>All relevant parties were identified, and their responsibilities and accountabilities defined.</p> <p>There was also a properly constituted governing body that met regularly.</p> <p>But the responsible entity and landholders were not cooperating because:</p> <ul style="list-style-type: none"> • Some relevant parties did not accept their roles. • Some parties did not have enough resources to effectively perform their role. 	<p>The controls were well designed and implemented, but they did not operate effectively over the period covered by the engagement.</p>
Conclusion (Adverse)	<p>The responsible entity has not effectively managed existing pests because:</p> <ul style="list-style-type: none"> • although the responsible entity had a Framework for Management of Existing Pests that was comprehensive and current, it was not effectively communicated to, or understood by, Stakeholders (Sub-objective A). • there was not effective cooperation between the responsible entity and landholders, as some relevant parties did not accept their roles or have enough resources to perform their roles effectively (Sub-objective B). • although the responsible entity had pest controls that were well designed and implemented, the controls did not operate effectively over the period covered by the engagement (Sub-objective C). 		

Roles and Responsibilities – Performance Engagements Initiated by an Auditor-General

The diagram below illustrates the relationships in a performance engagement conducted by an Auditor-General.



Under their legislative mandate, the Auditor-General selects an activity, conducted by the responsible party(ies), to be the subject matter of a performance engagement. The Auditor-General identifies the performance principle(s) (for example, economy, efficiency, effectiveness, and/or ethics) to be applied and develops suitable criteria against which to assess performance. The Auditor-General evaluates the performance of the activity against those identified criteria (in terms of the performance principle(s) to be addressed) and presents the resulting subject matter information (for example, analysis and findings) as part of, or accompanying the assurance report. The Auditor-General also applies assurance skills and techniques to obtain assurance on which to base their conclusion. The assurance report is ordinarily tabled in Parliament.

Appendix 4

(Ref: Para 16, 57)

Standards Applicable to Example Engagements on an Activity's Performance

Subject Matter	Type	AUASB Applicable Standards			
		ASAE 3000 Assurance Engagements (Not Historical Financial Information)	ASAE 3100 Compliance Engagements	ASAE 3150 Assurance Engagements on Controls	ASAE 3500 Performance Engagements
Performance of an activity in achieving economy, efficiency, effectiveness, and/or other relevant performance principle(s), where there is no attestation (direct engagement)	Direct	✓ ⁴⁷			✓
Performance of an activity to comply with legislative and regulatory requirements	Direct or Attest	✓	✓		
Design and operating effectiveness of controls over economy, efficiency, effectiveness, and/or other relevant performance principle(s).	Direct or Attest	✓		✓	

⁴⁷ ASAE 3000 applies to attestation engagements so, as these are direct engagements, the assurance practitioner only complies with relevant requirements of ASAE 3000, adapted and supplemented as necessary in the engagement circumstances.

December 2024

Basis for Conclusions ***ASAE 3500 Performance Engagements*** **(Revised)**

Prepared by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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This Basis for Conclusions is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

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ISSN 2201-3628

Important Note and Disclaimer

This Basis for Conclusions has been prepared by staff of the Office of the AUASB to provide background to, and the rationale for, the development and approval of Standard on Assurance Engagements ASAE 3500 *Performance Engagements* (Revised) by the AUASB. It does not constitute an authoritative pronouncement of the AUASB, nor does it amend, extend or override AUASB Standards.

The Basis for Conclusions relates to, but does not form part of, ASAE 3500 *Performance Engagements* (Revised). No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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BASIS FOR CONCLUSIONS

ASAE 3500 Performance Engagements (Revised)

1. The AUASB has issued a revised Standard on Assurance Engagements *ASAE 3500 Performance Engagements (ASAE 3500 (Revised))*, to replace [ASAE 3500 Performance Engagements \(revised October 2017, updated December 2022\)](#). ASAE 3500 (Revised) is operative for assurance engagements commencing on or after 1 April 2025, with early adoption permitted.
2. This Basis for Conclusions provides background to, and the rationale for, the development and approval of the revised Standard by the AUASB. It relates to, but does not form part of, ASAE 3500 (Revised), and is not a substitute for reading the revised Standard.

Background

3. ASAE 3500 deals with direct engagements in which an assurance practitioner (accountant or non-accountant) evaluates a responsible party or parties' performance of an activity against identified criteria and aims to obtain sufficient appropriate evidence to express, in a written direct assurance report, a conclusion to intended users about the outcome of that evaluation.
4. As required under the AUASB's [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#), a Post Implementation Review (PIR) of the Standard was conducted during the period April-June 2023, to evaluate the effectiveness and efficiency of the Standard's implementation and application in practice. For a summary of the key findings from the PIR, refer to the AUASB's [Feedback Statement](#) that has been released publicly on the AUASB website.
5. At its June 2023 meeting, the AUASB supported the commencement of a new project to make narrow scope amendments to ASAE 3500, to address the key findings from the PIR of the Standard.
6. The revision was narrow in scope as it was targeted at the specific issues identified by stakeholders that participated in the PIR, rather than undertaking a full-scale revision of the Standard in its entirety. The [Project Plan](#) provides further information on the objective and scope of the project, planned approach and consultation with stakeholders.
7. The AUASB developed the revised ASAE 3500 in consultation with a Project Advisory Group (PAG), consisting of 9 members representing each public sector audit office in Australia.
8. At its May 2024 meeting, the AUASB approved [Exposure Draft 01/24: Proposed Revised Standard on Assurance Engagements ASAE 3500 Performance Engagements](#) (ED 01/24). ED 01/24 was issued on 29 May 2024, for a 60-day public comment period that closed on 30 July 2024. The [Explanatory Memorandum](#) that accompanied the public release of ED 01/24 provides further background on the project and an explanation of the exposure draft.
9. Submissions on the exposure draft were received from:
 - [Australasian Council of Auditors-General \(ACAG\) \(Australian members\)](#)
 - [Tasmanian Audit Office](#)

Issues Raised by Respondents on Exposure

10. Submissions were fully supportive of the changes to ASAE 3500 as proposed in ED 01/24. Respondents did not raise any issues with the proposed revised Standard.

Conclusion

11. The AUASB has not made any further changes to the version of the proposed Standard that was publicly exposed.
12. The Office of Impact Analysis (OIA) has determined that a detailed impact analysis of the revised Standard was not required under the Australian Government's Policy Impact Analysis Framework, on the basis that the OIA considered that the regulatory impacts of the proposed revised Standard are likely to be minor and that the revised Standard is likely to create minimal additional regulatory costs.
13. The AUASB voted to approve and issue the final ASAE 3500 (Revised) on 16 December 2024.

* * *

ASA 102
(December 2024)

Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*

Issued by the **Auditing and Assurance Standards Board**

Draft



Australian Government

Auditing and Assurance Standards Board

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CONFORMITY WITH INTERNATIONAL STANDARDS ON AUDITING

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Draft

PREFACE

Reasons for Issuing ASA 102

The AUASB issues Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non-corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

ASA 102 is an Auditing Standard made under the *Corporations Act 2001* for Australian legislative purposes. ASA 102 enables references to relevant ethical requirements in other AUASB Standards to remain current as they are explicitly linked to ASA 102. Under ASA 102 the auditor, assurance practitioner, engagement quality reviewer, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued by the Accounting Professional & Ethical Standards Board Limited (APESB) in November 2018 incorporating all amendments to June 2024, which are to be taken into account in determining whether relevant ethical requirements have been met. The AUASB proposes to amend or re-make ASA 102 whenever APES 110 is amended or revised, to ensure that such cross references remain current and to eliminate the need to amend other AUASB Standards.

The AUASB has made ASA 102 in a format that is consistent with the other Australian Auditing Standards operative for financial reporting periods commencing on or after 1 January 2010 and for firms required to establish systems of quality management in compliance with ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*.

Main Features

This Auditing Standard establishes requirements and provides application and other explanatory material regarding the responsibilities of auditors, assurance practitioners, engagement quality reviewers and firms to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

Under the Strategic Direction given to the AUASB by the FRC, the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards.

ASA 102 has been made for Australian legislative purposes and accordingly there is no equivalent ISA issued by the IAASB. However, the requirement and application and other explanatory material in ASA 102 have been drawn from several standards of the IAASB.

The APESB has recently issued amendments to APES 110 incorporating changes to the IESBA Code, with adaptations and additional requirements to suit the Australian environment. The amendments are effective from 1 January 2025. The revision of ASA 102 updates references to the amended APES 110 (issued in November 2018 incorporating all amendments to June 2024).

Auditing Standard ASA 102

Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to AUASB Standards*, which sets out how AUASB Standards are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Dated: <TypeHere>

D Niven
Chair - AUASB

Auditing Standard ASA 102

Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements

Conformity with International Standards on Auditing

This Auditing Standard has been made for Australian legislative purposes and accordingly there is no equivalent International Standard on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

However, the requirement and application and other explanatory material in this Auditing Standard have been drawn from ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, ISQM 2 *Engagement Quality Reviews*, ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* and ISA 220 *Quality Management for an Audit of Financial Statements*, issued by the IAASB, as listed in the following table:

ASA 102	International Standards
Paragraph 6 (requirement)	ISA 200 paragraph 14 ISQM 1 paragraph 29 ISQM 2 paragraphs 2, 18-20
Paragraph A1	ISA 200 paragraph A17
Paragraph A2	ISA 200 paragraph A18
Paragraph A3	ISA 200 paragraph A18
Paragraph A4	ISA 200 paragraph A18
Paragraph A5	ISA 200 paragraph A19
Paragraph A6	ISQM 1 paragraph A18 ISA 220 paragraph A26-A27

Compliance with this Auditing Standard, together with other Australian Auditing Standards, enables compliance with the ISAs and ISQMs.

AUDITING STANDARD ASA 102

Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements

Application

1. This Auditing Standard applies to:
 - (a) an audit of a financial report for a financial year, or an audit or review of a financial report for a half-year, in accordance with the *Corporations Act 2001*;
 - (b) an audit or review of a financial report, or a complete set of financial statements, for any other purpose;
 - (c) an audit or review of other financial information;
 - (d) other assurance engagements excluding sustainability assurance engagements; and
 - (e) a firm required to comply with ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*.

Operative Date

2. This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2025.

Introduction

Scope of this Auditing Standard

3. This Auditing Standard includes a requirement for auditors, assurance practitioners, engagement quality reviewers and firms to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

Objective

4. The objective of the auditor, assurance practitioner, engagement quality reviewer and firm is to comply with relevant ethical requirements, including those pertaining to independence, relating to audits, reviews and other assurance engagements.

Definitions

5. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
 - (a) Assurance practitioner means assurance practitioner as defined in ASQM 1.
 - (b) Auditor means auditor as defined in ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.
 - (c) Engagement quality reviewer means engagement quality reviewer as defined in ASQM 1.

Auditing Standard ASA 102

Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements

- (d) Relevant ethical requirements means ethical requirements that apply to the auditor, assurance practitioner, engagement quality reviewer and firm. In Australia, these include the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued by the Accounting Professional & Ethical Standards Board Limited (APESB) (November 2018 incorporating all amendments to June 2024), the applicable provisions of the *Corporations Act 2001* and other applicable law or regulation.

Requirements

Compliance with Relevant Ethical Requirements (Ref: Para. A1-A6)

6. The auditor, assurance practitioner, engagement quality reviewer and firm shall comply with relevant ethical requirements, including those pertaining to independence, when performing audits, reviews and other assurance engagements.

* * *

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Application and Other Explanatory Material

Compliance with Relevant Ethical Requirements (Ref: Para. 6)

- A1. The auditor, assurance practitioner, engagement quality reviewer and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued by the APESB, which are to be taken into account in determining whether relevant ethical requirements referred to in paragraph 6 of this Auditing Standard have been met. In relation to audits and reviews undertaken in accordance with the *Corporations Act 2001*, the provisions of Division 3 Part 2M.4 of the Act may also apply.
- A2. APES 110 establishes the fundamental principles of ethics which are:
- (a) Integrity;
 - (b) Objectivity;
 - (c) Professional competence and due care;
 - (d) Confidentiality; and
 - (e) Professional behaviour.

The fundamental principles of ethics establish the standard of behaviour expected of the auditor, assurance practitioner, engagement quality reviewer, and firm, when performing audits, reviews and other assurance engagements.

- A3. APES 110 provides a conceptual framework that establishes the approach which the auditor, assurance practitioner, engagement quality reviewer and firm are required to apply when identifying, evaluating and addressing threats to compliance with the fundamental principles.
- A4. In the case of audits, reviews and other assurance engagements, APES 110 sets out *Independence Standards*, established by the application of the conceptual framework to threats to independence in relation to those engagements.
- A5. APES 110 describes independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence enhances the ability to act with integrity, to be objective and to maintain an attitude of professional scepticism.
- A6. The definition of terms in APES 110 may differ from the definitions of those terms in AUASB Standards. In complying with the requirements of this Auditing Standard, the definitions used in APES 110 apply in so far as is necessary to interpret the ethical requirements of AUASB Standards.

ASA 102
(December 2024)

Explanatory Statement

ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements

Issued by the **Auditing and Assurance Standards Board**



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Reasons for Issuing Auditing Standard ASA 102

The AUASB issues Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non-corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

ASA 102 is an Auditing Standard made under the *Corporations Act 2001* for Australian legislative purposes. ASA 102 enables references to relevant ethical requirements in other AUASB Standards to remain current as they are explicitly linked to ASA 102. Under ASA 102 the auditor, assurance practitioner, engagement quality reviewer, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued by the Accounting Professional & Ethical Standards Board Limited (APESB) in November 2018 incorporating all amendments to June 2024, which are to be taken into account in determining whether relevant ethical requirements have been met. The AUASB proposes to amend or re-make ASA 102 whenever APES 110 is amended or revised, to ensure that such cross references remain current and to eliminate the need to amend other AUASB Standards.

The AUASB has made ASA 102 in a format that is consistent with the other Australian Auditing Standards operative for financial reporting periods commencing on or after 1 January 2010 and for firms required to establish systems of quality management in compliance with ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*.

Purpose of ASA 102

The purpose of ASA 102 is to require auditors, assurance practitioners, engagement quality reviewers and firms to comply with relevant ethical requirements, including those pertaining to independence, when performing audits, reviews and other assurance engagements.

Main Features

Under the Strategic Direction given to the AUASB by the FRC, the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards.

ASA 102 has been made for Australian legislative purposes and accordingly there is no equivalent ISA issued by the IAASB. However, the requirement and application and other explanatory material in ASA 102 have been drawn from several standards of the IAASB.

The APESB has recently issued amendments to APES 110 incorporating changes to the IESBA Code, with adaptations and additional requirements to suit the Australian environment. The amendments are effective from 1 January 2025.

The revision of ASA 102 updates references to the amended APES 110 (issued in November 2018 incorporating all amendments to June 2024).

Operative Date

The reissued ASA 102 is operative for engagements with financial reporting periods commencing on or after 1 January 2025.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

Consultation Process prior to issuing the Auditing Standard

It is the view of the AUASB that the changes to ASA 102 do not require public exposure as they are not significant in nature and have no impact on the requirement of ASA 102.

Impact Analysis

A Preliminary Assessment form has been prepared in connection with the making of ASA 102 and lodged with the Office of Impact Analysis (OIA). The OIA advised that an Impact Analysis (IA) is not required in relation to this standard.

Exemption from Sunsetting

Auditing Standards promulgated by the AUASB that are legislative instruments are exempt from the sunseting provisions of the *Legislation Act 2003* through section 12 of the *Legislation (Exemption and Other Matters) Regulation 2015* (Item 18(a)).

The AUASB's Standards incorporate Standards set by the International Auditing and Assurance Standards Board. The AUASB's Standards are exempt from sunseting because a more stringent review process than sunseting applies to the Standards. This review process ensures Australia's Auditing Standards regime remains consistent with international standards. Typically, the AUASB Standards are revised at least once within a ten-year period, with most of the Standards subject to revisions much more frequently than that. Each revision follows the stringent review process (which includes the opportunity for public comment) in order to remain consistent with international Standards. It is very unlikely that any AUASB Standard would not have been amended (or else considered for amendment) within a ten-year period through these review processes. Therefore, if it applied, a ten-year sunseting regime would have very limited practical application to AUASB Standards. Parliamentary oversight is retained whenever a Standard is replaced or amended since the Standards are disallowable instruments and subject to the normal tabling and scrutiny process as required by the *Legislation Act 2003*.

Incorporation by reference

Paragraph 5(d) of ASA 102 incorporated the version of APES 110 made in November 2018. Under s14(1)(b) of the *Legislation Act 2003* an instrument may incorporate documents such as APES 110 as in force from time to time. The main purpose of ASA 102 was to replace the reference to previous APES 110 in ASA 102 with a reference to the most recent version of APES 110.

The updated version APES 110 is freely available at <https://apesb.org.au/standards-guidance/apes-110-code-of-ethics/>.

STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

Legislative Instrument: **Auditing Standard ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements**

This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Overview of the Legislative Instrument

Background

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Purpose of Auditing Standard ASA 102

The purpose of ASA 102 is to require auditors, assurance practitioners, engagement quality reviewers and firms to comply with relevant ethical requirements, including those pertaining to independence, when performing audits, reviews and other assurance engagements.

Main Features

ASA 102 is reissued to update references to the amended APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (issued in November 2018 incorporating all amendments to June 2024).

Human Rights Implications

Australian Auditing Standards are issued by the AUASB in furtherance of the objective of facilitating the Australian economy. The standards do not diminish or limit any of the applicable human rights or freedoms, and thus do not raise any human rights issues.

Conclusion

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues.

2024-1
(December 2024)

Auditing Standard ASA 2024-1 *Amendments to Australian Auditing Standards*

Issued by the **Auditing and Assurance Standards Board**

Draft



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Auditing Standard

This Auditing Standard is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

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Draft

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Draft

PREFACE

Reasons for Issuing ASA 2024-1

The AUASB issues Auditing Standard ASA 2024-1 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non-corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Main Features

This Auditing Standard makes amendments to the requirements and application and other explanatory material and appendices of the following Auditing Standard:

ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* (Issued May 2022)

The amendments arise from editorial corrections to revise minor inaccuracies in ASA 600.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 2024-1 *Amendments to Australian Auditing Standards* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

Dated: 16 December 2024

D Niven
Chair - AUASB

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Conformity with International Standards on Auditing

This Auditing Standard has been made for Australian legislative purposes and accordingly there is no equivalent International Standard on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

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AUDITING STANDARD ASA 2024-1

Amendments to Australian Auditing Standards

Application

1. This Auditing Standard applies to:
 - an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - an audit of a financial report, or a complete set of financial statements, for any other purpose.
2. This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

3. This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2025.

Introduction

Scope of this Auditing Standard

4. This Auditing Standard makes amendments to ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* (Issued May 2022). The amendments represent editorial corrections to revise minor inaccuracies in ASA 600.

Objective

5. The objective of this Auditing Standard is to make amendments to ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* (Issued May 2022).

Definition

6. For the purposes of this Auditing Standard, the meanings of terms are set out in each Auditing Standard and in the *AUASB Glossary*. This Auditing Standard does not introduce new definitions.

Amendments to Auditing Standards

7. Where relevant, this Standard uses underlining, striking out and other typographical material to identify the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined. Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended.
8. Where this amending standard inserts or deletes a paragraph or footnote, as a result of that insertion or deletion relevant paragraph numbers, cross-references and footnotes are updated.

Amendments to ASA 600

Amendments to ASA 600 Appendix 1: [Aus] Illustration 1A

9. [Aus] Illustration 1A: Illustration of Independent Auditor's Report When the Group Auditor Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion – General Purpose Financial Report, Qualified Opinion under the *Corporations Act 2001*, is amended to read as follows:

INDEPENDENT AUDITOR'S REPORT

...

Qualified Opinion

We have audited the consolidated financial report of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial report, including material accounting policy information a
~~summary of significant accounting policies~~, and the directors' declaration.

...

ASA 2024-1
(December 2024)

Explanatory Statement

ASA 2024-1 Amendments to Australian Auditing Standards

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Explanatory Statement

This Explanatory Statement is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

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AUSTRALIA

Reasons for Issuing Auditing Standard ASA 2024-1

The AUASB issues Auditing Standard ASA 2024-1 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non-corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, *inter alia*, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Purpose of Auditing Standard ASA 2024-1 Amendments to Australian Auditing Standards

The purpose of the Auditing Standard is to make amendments to the requirements and application and other explanatory material and appendices of the following Auditing Standard:

ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* (Issued May 2022)

Main Features

This Auditing Standard makes amendments to ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* (Issued May 2022). The amendments represent editorial corrections to revise minor inaccuracies in ASA 600.

Operative Date

ASA 2024-1 *Amendments to Australian Auditing Standards* is operative for financial reporting periods commencing on or after 1 January 2025.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

Consultation Process prior to issuing the Auditing Standard

It is the view of the AUASB that ASA 2024-1 does not require public exposure as the amendments are sufficiently narrow in scope as well as editorial corrections to revise minor inaccuracies, including misspellings and numbering or grammatical mistakes.

Impact Analysis

A Preliminary Assessment form has been prepared in connection with the preparation of ASA 2024-1 *Amendments to Australian Auditing Standards* and lodged with the Office of Impact Analysis (OIA). The OIA advised that an Impact Analysis (IA) is not required in relation to this standard.

Exemption from Sunsetting

Auditing Standards promulgated by the AUASB that are legislative instruments are exempt from the sunsetting provisions of the *Legislation Act 2003* through section 12 of the *Legislation (Exemption and Other Matters) Regulation 2015* (Item 18(a)).

The AUASB's Standards incorporate Standards set by the International Auditing and Assurance Standards Board. The AUASB's Standards are exempt from sunsetting because a more stringent review process than sunsetting applies to the Standards. This review process ensures Australia's Auditing Standards regime remains consistent with international standards. Typically, the AUASB Standards are revised at least once within a ten-year period, with most of the Standards subject to revisions much more frequently than that. Each revision follows the stringent review process (which includes the opportunity for public comment) in order to remain consistent with international Standards. It is very unlikely that any AUASB Standard would not have been amended (or else considered for amendment) within a ten-year period through these review processes. Therefore, if it applied, a ten-year sunsetting regime would have very limited practical application to AUASB Standards. Parliamentary oversight is retained whenever a Standard is replaced or amended since the Standards are disallowable instruments and subject to the normal tabling and scrutiny process as required by the *Legislation Act 2003*.

STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

Legislative Instrument: **Auditing Standard ASA 2024-1 Amendments to Australian Auditing Standards**

This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Overview of the Legislative Instrument

Background

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Purpose of Auditing Standard ASA 2024-1

The purpose of ASA 2024-1 is to make amendments to the requirements and application and other explanatory material and appendices of the following Auditing Standard:

ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* (Issued May 2022)

Main Features

ASA 2024-1 makes amendments to ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* (Issued May 2022). The amendments represent editorial corrections to revise minor inaccuracies in ASA 600.

Human Rights Implications

Australian Auditing Standards are issued by the AUASB in furtherance of the objective of facilitating the Australian economy. The standards do not diminish or limit any of the applicable human rights or freedoms, and thus do not raise any human rights issues.

Conclusion

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues.

AUASB Agenda Paper

Title:	ASA 102 and ASA 2024-1	Date:	16 December 2024
Office of the AUASB Staff:	See Wen Ewe	Agenda Item:	7

Objective of this Agenda Paper

- The objective of this Agenda Item is to seek approval from AUASB members to issue:
 - a revised ASA 102 and the accompanying Explanatory Statement; and
 - an Amending Standard ASA 2024-1 and the accompanying Explanatory Statement.

Questions for the AUASB members

Question No.	Questions for AUASB members
Question 1	The AUASB is asked to approve revised ASA 102 and the accompanying Explanatory Statement included at Agenda Item 7.1 and Agenda Item 7.2 .
Question 2	The AUASB is asked to approve proposed ASA 2024-1 and the accompanying Explanatory Statement which makes amendments to ASA 600 included at Agenda Item 7.3 and Agenda Item 7.4 .

Background and Matters for Consideration

- A. ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements**
- ASA 102 is out-of-date as it refers to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued by the Accounting Professional & Ethical Standards Board Limited (APESB) in November 2018 incorporating all amendments to December 2022.
 - The APESB has since issued the following pronouncements:
 - Revisions to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* Relating to the Definition of Engagement Team and Group Audits - issued June 2023 and effective from 1 January 2024;
 - Revisions to the Definitions of Listed Entity and Public Interest Entity in APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* - issued November 2023 with an effective date of 1 January 2025; and
 - Technology-related revisions to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* - issued June 2024 with an effective date of 1 January 2025.
 - Consequently, ASA 102 needs some narrow-scoped changes to capture the latest amendments made by the APESB.
 - The Office of the AUASB also proposed to exclude sustainability assurance engagements from paragraph 1 of ASA 102. Please refer to **Agenda Item 4.1** for more information.
 - The Office of the AUASB has revised ASA 102 (**see Agenda Item 7.1**) instead of making the changes via an amending standard¹ as amending standards usually apply to:

¹ See paragraph 198 of the [AUASB Due Process Framework](#).

- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
- (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.

However, ASA 102 also applies to review of a financial report and other assurance engagements. Therefore, the Office of the AUASB deemed that an amending standard would not be appropriate to amend ASA 102.

- 7. The commencement date of ASA 102 is proposed to be 1 January 2025 to align with the effective date of the latest APESB revision.
- 8. As changes to ASA 102 is minimal, a full marked-up version of the standard is not provided. Refer to Appendix 1 of this paper for the summary of changes.

B. ASA 2024-1 Amendments to Australian Auditing Standards

- 9. The Office of the AUASB is proposing minor editorial corrections in ASA 600 via amending standard ASA 2024-1 which was not picked up previously. The corrections are needed following amendments made to AASB 101 requiring entities to disclose their 'material accounting policy information' instead of their 'significant accounting policies'. For more information, see [Agenda Item 9 of the March 2023 AUASB board papers](#).
- 10. The commencement date of ASA 2024-1 is proposed to be 1 January 2025 to align with ASA 102.
- 11. The Office of the AUASB is of the view that ASA 2024-1 does not require public exposure as the amendments are minor.

Collaboration with other standard setters

- 12. APESB has approved further revisions to APES 110 at their December 2024 meeting. However, the revisions have not been issued and are only effective from 1 July 2025. As such, the Office of the AUASB has proposed changes to paragraph 5 of ASA 102 to "incorporating all amendments to June 2024" as June 2024 is the issue date of the latest APESB revision that is effective from 1 January 2025.

Next steps

- 13. Subject to the AUASB's approval of Agenda Items 7.1 – 7.4, the Office of the AUASB will incorporate feedback received from the AUASB and lodge the instruments for the Federal Register of Legislation (FRL).
- 14. The Office of the AUASB will then publish these instruments on the AUASB website with a compilation of ASA 600 amended by ASA 2024-1.

Appendix 1 – Summary of changes made to ASA 102

1. This Auditing Standard applies to:
 - (a) an audit of a financial report for a financial year, or an audit or review of a financial report for a half-year, in accordance with the *Corporations Act 2001*;
 - (b) an audit or review of a financial report, or a complete set of financial statements, for any other purpose;
 - (c) an audit or review of other financial information;
 - (d) other assurance engagements excluding sustainability assurance engagements; and
 - (e) a firm required to comply with ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*.

5. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
 - (a) Assurance practitioner means assurance practitioner as defined in ASQM 1.
 - (b) Auditor means auditor as defined in ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.
 - (c) Engagement quality reviewer means engagement quality reviewer as defined in ASQM 1.
 - (d) Relevant ethical requirements means ethical requirements that apply to the auditor, assurance practitioner, engagement quality reviewer and firm. In Australia, these include the applicable requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued by the Accounting Professional & Ethical Standards Board Limited (APESB) (November 2018 incorporating all amendments to ~~December 2022~~ June 2024), the applicable provisions of the *Corporations Act 2001* and other applicable law or regulation.