



**Subject:** Agenda for the 95<sup>th</sup> meeting of the AUASB  
**Venue:** TEQSA Executive Board Room  
Tower Level 14, 530 Collins Street Melbourne  
**Time:** Tuesday 12 September 2017, 9.00 – 5.00pm

\* Agenda item 1 -4 and 9 are closed sessions

Time	Agenda Item No.
9.00am	<b>1. Preliminary Session*</b> (a) Welcome (b) AUASB Declarations of Interest (c) Minutes of Previous AUASB Meeting (d) Matters Arising from Previous Meetings and Action List (e) NZAuASB Update
9.30am	<b>2. Strategy, Corporate Plan and AUASB Charter*</b>
9.45am	<b>3. AASB Chair Update*</b>
10.30am	<i>Break</i>
10.45am	<b>4. FRC Chair Update*</b>
11.15am	<b>5. Performance Engagements</b>
12.15pm	<b>6. UNSW-AUASB Research Day - 13 October</b>
12.45pm	<i>Lunch</i>
1.30pm	<b>7. Review of September 2017 IAASB Agenda &amp; Papers</b>
3.00pm	<i>Break</i>
3.15pm	<b>8. AUASB Technical Work Program and Strategic Projects</b>
4.15pm	<b>9. Other Business</b>
4.45pm	<b>10. Review*</b>
5:00p.m.	<b>11. Close</b>

**NOTE:** The running order and time allocated to agenda items is subject to change prior to and during the course of the meeting: It is advisable to visit the website prior to 12 September 2017 to confirm whether the anticipated running order remains as indicated above:

Those wishing to attend the public sessions of the meeting are requested to register in advance by sending an email to [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)



# AUASB Board Meeting Summary Paper

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## AGENDA ITEM NO. 5

Meeting Date: 12 September 2017

Subject: Comments on Disposition and final revised ASAE 3500 Performance Engagements

Date Prepared: 28 August 2017

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☒ Action Required

☐ For Information Purposes Only

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### Agenda Item Objectives

To provide the AUASB with the comments received and proposed disposition paper and final revised ASAE 3500 *Performance Engagements* for consideration and approval.

### Background

1. The final ED 01/17 *Proposed Standard on Assurance Engagements ASAE 3500 Performance Engagements* was issued on 22 May 2017 for a 60 day exposure period closing on 21 July 2017. Three submissions were received from EY, ACAG and CPA refer attachments 5.3, 5.4 and 5.5.
2. Discussions with the PAG Chair were held in early August to discuss the comments received and the draft proposed disposition paper and to agree the proposed responses to the questions raised on submission and any flow through changes to the final revised ASAE 3500.

### Matters to Consider

#### *Part A – General*

3. Whilst all the matters raised by stakeholders have been dealt with in detail in the comments on disposition paper there are two that the ATG and PAG Chair felt should be highlighted to the Board for consideration:

#### **3.1 ACAG Overall Comment (Refer Comments and Disposition Paper Agenda Item 5.1 -Q7 pg 17)**

As ACAG members discussed with the AUASB through the Project Advisory Group consultation process, the intention of the AUASB to prepare the proposed standard as a sector-neutral performance engagement standard within the *Framework for Assurance Engagements* (the Framework) diminishes the potential value of the proposed standard to the public sector. Its value could be greatly enhanced if it was specifically prepared for public sector auditors with more consideration of better practice in reporting to Parliament and less consideration for consistency of reporting with the Framework.

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*This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.*

and

**Paragraph 45 - Assurance Report Content (Refer Comments and Disposition Paper Agenda Item 5.1 –Q5 pg 8)**

ACAG notes that the minimum requirements to be included in a performance audit report as prescribed in paragraph 45 contain some elements not currently presented in practice. As such, the inclusion of all of these elements would require significant changes to existing performance audit reporting custom.

**AUASB Technical Group (ATG) Comments on Disposition**

This area was discussed at length with the PAG and the following base elements were noted as ones not currently reported on by Auditor-Generals: 45(d) Responsible Parties responsibility statement, 45(e) Assurance Practitioners responsibility statement and 45(g)(i) application of ASQC1 and were not considered by the PAG to add to the substance of the performance engagement report. Currently 44(d) and 44(e) are required under para 83(g) of extant ASAE 3500. Paragraph 44(g)(i) in relation to ASQC 1 only came into effect in October 2009 (post issuance of extant ASAE 3500) as part of the AUASB's Clarity project. By removing these base elements of the performance engagement report allows the Auditor-Generals' who primarily undertake performance engagements more flexibility in their reporting style and lends itself to the report being presented in plain English assisting the user/reader of the report and is consistent with current practice in Australia. These recommended changes also support ACAG's overall comment regarding this ASAE being specifically developed for public sector auditors with consideration of better practice in reporting to Parliament.

**The Board to advise whether they agree with the proposed disposition on this matter?**

**3.2 Paragraph 34 – Understanding Internal Controls (Refer Comments and Disposition Paper Agenda Item 5.1 –Q5 pg 7)**

ACAG notes the potential for inconsistent application of paragraph 34 of the proposed standard. This is due in part to this paragraph introducing a new mandatory requirement to understand internal control by evaluating the design and implementation of controls. This may be construed as implying a level of testing of the relevant controls, in addition to obtaining an understanding, however it is not clear whether this is the intention and, if so, what the nature, timing and extent of procedures should be.

ASAE 3000 provides no greater clarity in this regard. By way of contrast, ASA 315, paragraph A74 clarifies the types of procedures used in gaining an understanding of the design and implementation of financial reporting controls.

Also, the paragraph is not clear about the circumstances when internal controls will be considered relevant to the evaluation of an activity's performance.

ACAG notes the development of the recent Canadian Standard on Assurance Engagements CSAE 3001 *Direct Engagements* considered this matter. The Basis for Conclusions states "...the AASB decided to word paragraph 52R of CSAE 3001 so the focus is on controls pertinent to the objectives of the engagement and that work on evaluating the design and implementation of controls would be undertaken when relevant to that engagement." Additional explanatory material paragraphs were added to CSAE 3001. ACAG suggests a similar approach for the proposed standard.

**AUASB Technical Group (ATG) Comments on Disposition**

The assurance practitioner would need to apply their professional judgement as to when internal controls are considered relevant to the evaluation of an activity's performance. The circumstances of each performance engagement will be different and as such this would need to be considered on an engagement by engagement basis. The AUASB has reviewed the wording in para 52R of CSAE 3001 and are satisfied the overall requirement of understanding of internal control explicitly states only where relevant to the engagement. This is also the intention of para 34 of ASAE 3500 where we state 'internal controls the assurance practitioner considers are relevant to the evaluation.....'

The AUASB agrees the evaluation of the design of controls could be explicitly linked to the objective of the engagement and that performing of procedures on implementation of controls is only where relevant. The wording in para 34 has been changed to reflect this and is more in line with CSAE 3001.

Some additional application material has been added to para A36-A39 to reflect the type of work that may be undertaken on internal controls if relevant to the engagement and is drawn from CSAE 3001.

**The Board to advise whether they agree with the proposed disposition on this matter?**

4. NOCLAR

Due to timing of the approval and completion of the NOCLAR changes which include conforming amendments to ASAE 3000 (reference changes and additional application material) no reference to these requirements in ASAE 3000 had been included in ED 01/17 ASAE 3500.

On quality assurance it was noted that reference to NOCLAR should be included in ASAE 3500 for completeness.

Paragraph 34 has now been added to ASAE 3500 to refer to the requirements on NOCLAR in ASAE 3000 (May 2017) as follows:

"The assurance practitioner shall implement non-compliance with laws and regulations procedures as required by ASAE 3000." This includes a footnote to paragraph 45 of ASAE 3000.

***To be completed***

1. Basis for conclusions to be approved by Technical Director and Chair subject to final approval of the final revised ASAE 3500 by the AUASB; and
2. Internal sign off process.

***Part B – NZAuASB***

1. This is not a joint project with NZAuASB, as currently NZAuASB does not plan to issue an equivalent of ASAE 3500, as this topic is not within its mandate.
2. The AUASB Technical Group is participating in the NZAuASB Working Group to support the NZ project to develop a standard on assurance of *Service Performance Information* and monitoring the joint AASB and NZ XRB project to develop an accounting standard on *Reporting Service Performance Information*. Engagements under ASAE 3500 are distinct from engagements on Service Performance Information. Consequently ASAE 3500 does not include those engagements.

**AUASB Technical Group Recommendation**

The AUASB Technical Group recommends the final revised ASAE 3500 be approved subject to completion of the Basis for Conclusions and the internal sign off process.

### **Material Presented**

Agenda Item 5	AUASB Board Meeting Summary Paper
Agenda Item 5.1	AUASB Comments Received and Proposed Disposition Paper
Agenda Item 5.2	Revised Final ASAE 3500 <i>Performance Engagements</i> (marked up)
Agenda Item 5.3	Ernst & Young (EY)
Agenda Item 5.4	Australasian Council of Auditors-General (ACAG)
Agenda Item 5.5	CPA Australia (CPA)

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### **Action Required**

<b>No.</b>	<b>Action Item</b>	<b>Deliverable</b>	<b>Responsibility</b>	<b>Due Date</b>	<b>Status</b>
1.	AUASB to consider comments received and proposed disposition paper and final revised ASAE 3500 for approval.	Detailed comments on proposed disposition paper and revised ASAE 3500.	AUASB	12 September 2017	



# AUASB Comments Received and Proposed Disposition Paper

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**AGENDA ITEM NO.**      **5.1**

**Meeting Date:**            12 September 2017

**Subject:**                    ED 01/17 Proposed Standard on Assurance Engagements ASAE 3500 Performance Engagements

**Date Prepared:**            28 August 2017

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**Document Type:**           Exposure Draft

**Document Number:**       ED 01/17

**Proposed Type & No:**     ASAE 3500

**Proposed Title:**           Standard on Assurance Engagements ASAE 3500 Performance Engagements

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**EXHIBIT 1:**                ED 01/17 Proposed Standard on Assurance Engagements ASAE 3500 Performance Engagements

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## LISTING OF RESPONDENTS

Short Form Name	Name	Date Received
EY	Ernst & Young	17 July 2017
ACAG	Australasian Council of Auditors-General	21 July 2017
CPA	CPA Australia Ltd	25 July 2017

**EXHIBIT 1: ED 01/17 Proposed Standard on Assurance Engagements ASAE 3500 Performance Engagements****1. Have applicable laws and regulations been appropriately addressed in the proposed standard?**

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
EY	We believe that all applicable laws and regulations have been appropriately addressed in the proposed standard. We are not aware of any omitted references. Furthermore, we are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard. In our view, there are no additional significant costs to/benefits arising from compliance with the requirements of the proposed standard. We foresee no difficulties in implementing the requirements and believe there are no other significant public interest matters to raise.	Comment noted by the AUASB Technical Group (“ATG”)	N	
ACAG	ACAG makes no comment on this matter.	Comment noted by the ATG	N	
CPA	We have not identified any concerns regarding addressing applicable laws and regulations.	Comment noted by the ATG	N	

**Summary—Question - Have applicable laws and regulations been appropriately addressed in the proposed standard?**

No. of Respondents	NO	YES
3		3



**EXHIBIT 1: ED 01/17 Proposed Standard on Assurance Engagements ASAE 3500 Performance Engagements (cont'd)****2. Are there any references to relevant laws or regulations that have been omitted?**

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
EY	We believe that all applicable laws and regulations have been appropriately addressed in the proposed standard. We are not aware of any omitted references. Furthermore, we are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard. In our view, there are no additional significant costs to/benefits arising from compliance with the requirements of the proposed standard. We foresee no difficulties in implementing the requirements and believe there are no other significant public interest matters to raise.	Comment noted by the ATG	N	
ACAG	ACAG makes no comment on this matter.	Comment noted by the ATG	N	
CPA	We are not aware of any omissions.	Comment noted by the ATG	N	

**Summary—Question - Are there any references to relevant laws or regulations that have been omitted?**

No. of Respondents	NO	YES
3	3	

**EXHIBIT 1: ED 01/17 Proposed Standard on Assurance Engagements ASAE 3500 Performance Engagements (cont'd)****3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
EY	We believe that all applicable laws and regulations have been appropriately addressed in the proposed standard. We are not aware of any omitted references. Furthermore, we are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard. In our view, there are no additional significant costs to/benefits arising from compliance with the requirements of the proposed standard. We foresee no difficulties in implementing the requirements and believe there are no other significant public interest matters to raise.	Comment noted by the ATG	N	
ACAG	ACAG makes no comment on this matter.	Comment noted by the ATG	N	
CPA	We are not aware of any laws or regulations which prevent, impede or conflict with the proposed standard.	Comment noted by the ATG	N	

**Summary—Question - Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

No. of Respondents	NO	YES
3	3	

**EXHIBIT 1: ED 01/17 Proposed Standard on Assurance Engagements ASAE 3500 Performance Engagements (cont'd)**

4. What, if any, are the additional significant costs to/benefits for assurance practitioners and the public sector arising from compliance with the main changes to the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of performance engagements?

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
EY	We believe that all applicable laws and regulations have been appropriately addressed in the proposed standard. We are not aware of any omitted references. Furthermore, we are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard. In our view, there are no additional significant costs to/benefits arising from compliance with the requirements of the proposed standard. We foresee no difficulties in implementing the requirements and believe there are no other significant public interest matters to raise.	Comment noted by the ATG	N	
ACAG	ACAG considers that the main changes in the proposed standard are broadly consistent with current practice so ACAG does not anticipate that there will be any significant costs arising from compliance with the main changes to the requirements of the proposed standard.	Comment noted by the ATG	N	
CPA	There are likely to be some additional costs in implementing the proposed standard in order to update methodologies for the revised requirements and to ensure that areas which impose more comprehensive requirements are adequately addressed, such as internal controls. We do not consider that those additional costs are likely to be significant, although they will depend on the characteristics of the activity, such as the complexity of the relevant internal controls.	Comment noted by the ATG	N	

**Summary—Question - What, if any, are the additional significant costs to/benefits for assurance practitioners and the public sector arising from compliance with the main changes to the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of performance engagements?**

No. of Respondents	NO	YES
3	3	

**EXHIBIT 1: ED 01/17 Proposed Standard on Assurance Engagements ASAE 3500 Performance Engagements (cont'd)****5. Will there be any difficulties in implementing the requirements?**

<b>Respondent Comment</b>		<b>Commentary</b>	<b>Change to be made to Doc? Y/N</b>	<b>Para No.</b>
EY	We believe that all applicable laws and regulations have been appropriately addressed in the proposed standard. We are not aware of any omitted references. Furthermore, we are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard. In our view, there are no additional significant costs to/benefits arising from compliance with the requirements of the proposed standard. We foresee no difficulties in implementing the requirements and believe there are no other significant public interest matters to raise.	Comment noted by the ATG	N	
ACAG	<p><b>Paragraph 34 – Understanding internal controls</b></p> <p>ACAG notes the potential for inconsistent application of paragraph 34 of the proposed standard. This is due in part to this paragraph introducing a new mandatory requirement to understand internal control by evaluating the design and implementation of controls. This may be construed as implying a level of testing of the relevant controls, in addition to obtaining an understanding, however it is not clear whether this is the intention and, if so, what the nature, timing and extent of procedures should be.</p> <p>ASAE 3000 provides no greater clarity in this regard. By way of contrast, ASA 315, paragraph A74 clarifies the types of procedures used in gaining an understanding of the design and implementation of financial reporting controls.</p> <p>Also, the paragraph is not clear about the circumstances when internal controls will be considered relevant to the evaluation of an activity's performance.</p> <p>ACAG notes the development of the recent Canadian Standard on Assurance Engagements CSAE 3001 <i>Direct Engagements</i> considered this matter. The Basis for Conclusions states "...the AASB decided to word paragraph 52R of CSAE</p>	<p>Comment noted by the ATG</p> <p>The assurance practitioner would need to apply their professional judgement as to when internal controls are considered relevant to the evaluation of an activity's performance. The circumstances of each performance engagement will be different and as such this would need to be considered on an engagement by engagement basis.</p>		

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
	<p>3001 so the focus is on controls pertinent to the objectives of the engagement and that work on evaluating the design and implementation of controls would be undertaken when relevant to that engagement.” Additional explanatory material paragraphs were added to CSAE 3001. ACAG suggests a similar approach for the proposed standard.</p>	<p>The AUASB has reviewed the wording in para 52R of CSAE 3001 and are satisfied the overall requirement of understanding of internal control explicitly states only where relevant to the engagement. This is also the intention of para 33 of ASAE 3500 where we state ‘internal controls the assurance practitioner considers are relevant to the evaluation.....’</p> <p>The AUASB agrees the evaluation of the design of controls could be explicitly linked to the objective of the engagement and that performing of procedures on implementation of controls is only where relevant.</p> <p>The wording in para 33 has been changed to reflect this and is more in line with CSAE 3001.</p> <p>Some additional application material has been added to para A36-A39 to reflect the type of work that may be undertaken on internal controls if relevant to the engagement and is drawn from CSAE 3001.</p>	<p>Y</p> <p>Y</p>	<p>33</p> <p>A36-A39</p>
ACAG	<p><b>Paragraph 45 – Assurance report content</b></p> <p>ACAG notes that the minimum requirements to be included in a performance audit report as prescribed in paragraph 45 contain some elements not currently presented in practice. As such, the inclusion of all of these elements would require significant changes to existing performance audit reporting custom.</p>	<p>Comment noted by the ATG</p> <p>This area was discussed at length with the PAG and the following base elements were noted as ones not currently reported on by Auditor-Generals: 45(d) Responsible Parties responsibility statement, 45(e) Assurance Practitioners responsibility statement and 45(g)(i) application of ASQC1 and were not considered by the PAG to add to the substance of the performance engagement report. Currently 45(d) and 45(e) are required under para 83(g) of extant ASAE 3500. Paragraph 45(g)(i) in relation to ASQC1 only came into effect in October 2009 (post issuance of extant ASAE 3500) as part of the AUASB’s Clarity project. By</p>	Y	45(d), 45(e), 45(g)(i)

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
	In addition, ACAG recommends clarification as to the appropriate level of criteria required to be reported in accordance with subparagraph 45(c)(iii). In performance audit practice it is common for multiple levels of criteria to be developed, which may be described as 'lines of enquiry', 'criteria' or 'sub-criteria'. Inconsistency in reporting is likely to result without further clarification as to which levels of criteria should be reported as a minimum.	<p>removing these base elements of the performance engagement report allows the Auditor-General's more flexibility in their reporting style and lends itself to being presented in plain English assisting the user/reader of the report and is consistent with current practice in Australia. These recommended changes also support ACAG's overall comment regarding this ASAE being specifically developed for public sector auditors with consideration of better practice in reporting to Parliament.</p> <p>The ATG have added some additional words to the application material in para A15 to make it clear that criteria can include: general criteria or specific criteria referred to as sub-criteria and/or lines of enquiry.</p> <p>The ATG believe the definition of criteria in para 16(d) is broad enough for the assurance practitioner to include criteria, sub-criteria and/or lines of enquiry in their performance engagement report and as such no changes have been made to the current definition. This also allows the Auditor-General the flexibility to report criteria at the level that is most relevant to the performance engagement.</p>	Y  N	A15
ACAG	<p><b>Paragraph 15 – Relationship with other standards</b></p> <p>ACAG considers that the interpretation and application of paragraph 15 may be difficult because the table in Appendix 4 appears to be incomplete and/or confusing. The intention of the AUASB for the inclusion of this appendix is not clear. Specifically, under Subject Matters 2 and 3, ACAG considers ASAE 3500 ought to be ticked given that the table is describing subject matter evaluations that could be performance engagements. With particular reference to Subject Matter 3 which refers to the design and operating effectiveness of controls, the table also may cause confusion because paragraph 34 of the proposed standard requires an</p>	<p>Comment noted by the ATG</p> <p>ATG have clarified the wording in para 14 and Appendix 4 to assist in making the purpose of Appendix 4 clearer.</p> <p>ATG have also added an additional column to table regarding the type of engagement to assist in clarifying when each ASAE would apply.</p>	Y	14, App 4

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
	understanding of internal controls that includes an evaluation of the design and implementation of relevant controls.			
CPA	<p><b>Definition of Materiality – paragraph 17(m)</b></p> <p>Materiality is defined in the ED as: ‘variations in performance of an activity against the identified criteria which, if omitted, misstated or not disclosed has the potential to adversely affect decisions about the economy, efficiency and/or effectiveness and be reasonably expected to influence relevant decisions of the intended users or the discharge of accountability by the responsible party or governing body of the entity.’</p> <p>Performance engagements covered by the proposed standard are direct engagements, which would not usually give rise to an ‘omission, misstatement or non-disclosure’ as the performance would not have been reported on by the entity. In addition, as variations may exceed identified criteria, decisions are not necessarily always ‘adversely’ affected. Furthermore, we suggest that the definition should identify the impact on performance and then whether it affects decisions, rather than referring to decisions twice.</p> <p>In addition, materiality is considered in the context of planning and in evaluation of findings.</p> <p>To address these concerns, we recommend that the definition of materiality should be amended as follows:</p> <p>Variations in performance of an activity <u>evaluated</u> against the identified criteria which, <del>if omitted, misstated or not disclosed has</del> <u>have</u> the potential to <del>adversely affect decisions about</del> the economy, efficiency and/or effectiveness <u>of the activity</u> and be reasonably expected to influence relevant decisions of the intended users</p>	<p>Comment noted by the ATG</p> <p>ATG agree with recommended changes to the definition of materiality for performance engagements as suggested by CPA and have amended para 16(m), 31 and A46 accordingly.</p>	Y	16(m), 31, A46

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
	<p>or the discharge of accountability by the responsible party or governing body of the entity.</p> <p>If the definition of materiality is amended, then the wording of paragraphs 32 and A42 may need to be amended to be consistent, by deleting the word ‘adversely’.</p>			
CPA	<p><b>Definition of Reasonable assurance engagement – paragraph 17(p)</b></p> <p>The definition of reasonable assurance engagement and limited assurance engagement should be consistent. In the proposed standard the definition of limited assurance is more specific to performance engagements as it refers to economy, efficiency and effectiveness. We suggest that the definition of reasonable assurance engagements also needs to be more specific to make it meaningful for performance engagements. Our recommended wording is set out in point 5 below.</p>	<p>Comment noted by the ATG</p> <p>Refer to comments below re:</p> <p>CPA comment on: Assurance Conclusion and definitions of Limited and Reasonable assurance engagement.</p>	N	
CPA	<p><b>Definition of Variation – paragraph 17(t)</b></p> <p>Variation is defined in the ED as: ‘An instance where the underlying subject matter does not meet in whole or part the identified criteria, for example a material departure of performance against the identified criteria.’</p> <p>We note that the term ‘variation’ may be useful in the context of performance engagements if it is intended to reflect both deficiencies in performance and positive performance (including outstanding performance or performance exceeding expectations or benchmarks). In contrast, other types of assurance engagements usually seek to identify only negative findings, such as misstatements in reports, deficiencies in the design or implementation of controls, deviations in the operating effectiveness of controls or non-compliance.</p> <p>However, the definition of variation in the ED arguably reflects only deficiencies in performance as it states: ‘An instance where the underlying subject matter <u>does not</u> meet in whole or part the identified criteria’ (emphasis added). We</p>	<p>Comment noted by the ATG</p> <p>ATG agree that a variation can exceed or be deficient in its performance as evaluated against the identified criteria even though the example given illustrates a deficiency. The PAG discussed at length the use of the term deficiency and felt that it only focussed on the negative outcomes of a Performance Engagement rather than a more balanced view where some parts of the activity may meet the identified criteria whilst other parts of the activity may not which if material would be reported as a variation.</p> <p>The use of the term ‘variation’ was also considered by the PAG to be more in line with better practice in reporting to Parliament especially for performance engagements that may be politically sensitive.</p>	Y	16(t)



Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
	<p>recommend that either the definition is amended to reflect both positive and negative variations or a term which is more consistent with existing standards, such as ‘deficiencies’, should be used.</p> <p>Further, we consider that the second half of the definition does not add any clarity and the inclusion of the word ‘material’ is unhelpful as variations may be either material or immaterial. Once a variation is identified, materiality is a separate consideration which will determine whether it will impact the assurance conclusion.</p> <p>Consequently, we suggest that either the term ‘variation’ is replaced with ‘deficiency’ or, if it is retained, that the definition of variation be amended as follows:</p> <p>An instance where the <u>performance of the underlying subject matter does not meet either exceeds the identified criteria or is deficient, in whole or part, as evaluated against the identified criteria, for example a material departure of performance against the identified criteria</u></p>	<p>ATG agree the definition of variation should be amended accordingly to reflect both exceeding and deficiencies in performance against the identified criteria.</p>		
CPA	<p><b>Internal controls – paragraph 34</b></p> <p>Whilst we support the proposed requirements in relation to internal controls, the nature, timing and extent of testing necessary to evaluate the design and implementation of controls as required under paragraph 34, may create implementation difficulties for some practitioners. The proposed requirements are much more explicit that relevant controls should be considered, but do not specify the procedures required to be conducted. We acknowledge that, as only internal controls ‘relevant to the evaluation of the activity’s performance against the identified criteria’ are required to be understood, it may not be possible to clarify the procedures required, but a list of possible types procedures may be helpful in the application material.</p>	<p>Comment noted by the ATG</p> <p>As noted by CPA this requirement in para 33 only applies to controls relevant to the evaluation of the activity’s performance against the identified criteria. As each engagement and circumstances will be different and the extent to which internal controls are relevant will be matter for the assurance practitioners professional judgement it is somewhat difficult to list all the possible procedures required.</p> <p>ATG have added additional application material to para A36-A39 which discusses the type of work effort that may be undertaken for internal controls if they are</p>	Y	A36-A39

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
		relevant to the evaluation of the activity's performance. This is consistent with that in CSAE 3001.		
CPA	<p><b>Assurance Conclusion – paragraph 42</b></p> <p>We consider that the assurance conclusion as described in paragraph 42 could more closely reflect the usual manner in which performance is described. In particular, the phrase ‘free of material variation’ could be replaced with a phrase which more closely aligns with the objective (para. 16) and definition (para. 17(n)) of a performance engagement.</p> <p>We recommend that the wording should be amended as follows:</p> <p>Para. 42: The assurance practitioner shall form a conclusion about whether the <del>activity has been performedance of the activity,</del> as evaluated against the identified criteria, <del>is free of material variation</del> <u>economically, efficiently and/or effectively, in all material respects.</u></p> <p>This conclusion wording also needs to be reflected consistently in the definitions of limited assurance and reasonable assurance in paragraphs 17(l) and (p) respectively. We recommend that the definitions are amended as follows:</p> <p>Para. 17(l) Limited assurance engagement—An assurance engagement in which the assurance practitioner reduces engagement risk to a level that is acceptable in the circumstances 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 the activity has not been performed <del>with respect to economically, efficiently and/or effectivelyness, in all material respects,</del> as evaluated against the identified criteria. The nature...</p> <p>Para. 17(p) Reasonable assurance engagement—An assurance engagement in which the assurance practitioner reduces engagement risk to an acceptably low</p>	<p>Comment noted by the ATG</p> <p>ATG recommends retaining the current phrase in para 41 ‘free of material variation’ as this more closely reflects the outcomes of a performance engagement than the use of the words “in all material respects” which is more common to short form reports issued by financial statement auditors when conducting an audit under the ASAs. The ATG feel that this suggestion by CPA goes beyond the ASAE 3000 and CSAE 3001 report wording as the wording of the conclusion is not prescribed.</p> <p>Based on comments above the ATG recommend retaining the current definition in ED 01/17 of limited assurance engagement.</p>	<p>N</p> <p>N</p>	

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
	<p>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 <u>whether in the assurance practitioner's opinion</u> <del>conclusion on the outcome of the evaluation</del> of the activity <u>has been performed economically, efficiently and/or effectively, in all material respects, as evaluated</u> against identified criteria.</p> <p>In addition, it would be helpful to clarify that this precise wording is not mandatory in the assurance conclusion and the conclusion should reflect the objective of the engagement.</p>	Based on comments above the ATG recommend retaining the current definition in ED 01/17 of reasonable assurance engagement.	N	
CPA	Para. 5: Paragraph 5 is redundant as most of its content is covered in paragraph 3, so we suggest that paragraph 5 is deleted and the additional words in paragraph 5 are added to paragraph 3.	<p>Comment noted by the ATG</p> <p>ATG agree with comments that para 5 duplicates para 3 therefore para 5 has been deleted.</p>	Y	5
CPA	Para. 7(a)(i): As performance engagements can also be conducted in the private sector or outsourced by the Auditors General to the private sector, we recommend amending the wording to read: '..., <del>often</del> <u>including</u> a State, Territory or National Auditor General'.	<p>Comment noted by the ATG</p> <p>ATG agree with comment to clarify who can conduct the engagement so para 6(a)(i) has been amended accordingly.</p>	Y	6(a)(i)
CPA	Para. 17(r): The definition of 'responsible party' would benefit from further clarification by adding the phrase underlined as follows: 'The party responsible for the performance of <u>all or part of the activity, in a which is the subject matter of the performance engagement.</u> '	<p>Comment noted by the ATG</p> <p>ATG agree with comment additional wording has been added to clarify para 16(r).</p>	Y	16(r)
CPA	Para. A3(f): We suggest that activities specifically include governance structures by inserting the words ' <u>Governance structures, including</u> ' in this sub-paragraph before 'the assignment...'.	<p>Comment noted by the ATG</p> <p>ATG agree with comment additional wording has been added to clarify para A3(f).</p>	Y	A3(f)

**Summary—Question - Will there be any difficulties in implementing the requirements?**

No. of Respondents	NO	YES
3	1	2

**EXHIBIT 1: ED 01/17 Proposed Standard on Assurance Engagements ASAE 3500 Performance Engagements (cont'd)****6. Are there any other significant public interest matters that constituents wish to raise?**

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
EY	We believe that all applicable laws and regulations have been appropriately addressed in the proposed standard. We are not aware of any omitted references. Furthermore, we are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard. In our view, there are no additional significant costs to/benefits arising from compliance with the requirements of the proposed standard. We foresee no difficulties in implementing the requirements and believe there are no other significant public interest matters to raise.	Comment noted by the ATG	N	
ACAG	ACAG is not aware of any other significant public interest matters.	Comment noted by the ATG	N	
CPA	We have not identified any other significant public interest issues.	Comment noted by the ATG	N	

**Summary—Question - Are there any other significant public interest matters that constituents wish to raise?**

No. of Respondents	NO	YES
3	3	

**EXHIBIT 1: ED 01/17 Proposed Standard on Assurance Engagements ASAE 3500 Performance Engagements (cont'd)****7. GENERAL COMMENTS**

<b>Respondent Comment</b>		<b>Commentary</b>	<b>Change to be made to Doc? Y/N</b>	<b>Para No.</b>
ACAG	<p>The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on the above exposure draft. The views expressed in this submission represent those of all Australian members of ACAG.</p> <p>As ACAG members discussed with the AUASB through the Project Advisory Group consultation process, the intention of the AUASB to prepare the proposed standard as a sector-neutral performance engagement standard within the <i>Framework for Assurance Engagements</i> (the Framework) diminishes the potential value of the proposed standard to the public sector. Its value could be greatly enhanced if it was specifically prepared for public sector auditors with more consideration of better practice in reporting to Parliament and less consideration for consistency of reporting with the Framework.</p> <p>Putting aside that issue, overall, ACAG supports the proposed standard. However, we have identified some areas that could be improved or refined to help with its practical application.</p> <p>ACAG appreciates the opportunity to respond and trusts that you find our comments useful.</p>	<p>Comment noted by the ATG</p> <p>As stated by ACAG the Framework Standard under which ASAE 3500 has been developed is ASAE 3000 <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i> which is sector neutral.</p> <p>Therefore the requirements and application material are consistent with ASAE 3000 and as such sector neutral which allows the standard to be applied by all assurance practitioners who undertake performance engagements directly or via work that is outsourced to the firms by the Auditor-Generals.</p> <p>It should also be noted that suggested changes have been recommended by the ATG to ED 01/17 as reflected in the previous comments at Q5 to ensure the final ASAE 3500 has been appropriately adapted within the Framework for performance engagements in Australia. This process was also iterative throughout the PAG discussions and deliberations which have occurred over the last 12 months.</p>	N	
ACAG	<p>ACAG notes that the proposed standard does not acknowledge the common Australian practice of establishing an overall audit objective at the commencement of a performance engagement.</p> <p>This conceptually is distinct from the general engagement objective referred to in paragraph 16, and may differ from the program or entity level objectives referred to in paragraph 17(g).</p>	Comment noted by the ATG		

*This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.*

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
	<p>The formulation of a specific audit objective is an important early stage of audit planning, particularly for a direct engagement, as it informs the identification, selection or development of criteria relevant to the evaluation of the performance of an activity with respect to economy, efficiency and effectiveness.</p> <p>The existing standard acknowledges the important role of the audit objective in planning the engagement (paragraph 32) and reporting on the audit (paragraph 82), and ACAG recommends the retention of the intent and wording of these requirements.</p> <p>While the proposed standard does not prevent the setting of an audit objective, ACAG would prefer that it recognised the setting of objectives and concluding on objectives as essential steps in conducting a performance engagement.</p>	<p>The AUASB acknowledges that the extant standard does refer to the ‘objective’ in the planning and reporting paragraphs 32 and 82. However as noted this does not preclude the assurance practitioner setting an audit objective(s) in the planning phase of the performance engagement.</p> <p>The AUASB recommends including reference to the objective in paragraph 28, 43 and 45(iii).</p>	Y	28, 43, 45(iii)
ACAG	<p>ACAG recommends clarification of intent, or the correction of an apparent error, in paragraph 40 of the proposed standard. The paragraph states ‘...the assurance practitioner shall consider the effect on the activity’s performance of events that become known to the assurance practitioner <b>after the date</b> of the assurance report...’ [emphasis added].</p> <p>For consistency with ASAE 3000 <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i>, the existing standard on performance engagements and the <i>Framework for Assurance Engagements</i>, ACAG considers that the paragraph ought to read ‘...the assurance practitioner shall consider the effect on the activity’s performance of events that become known to the assurance practitioner <b>up to the date</b> of the assurance report...’ [emphasis added].</p> <p>ACAG also considers that guidance similar to that provided in paragraph A50 of ASAE 3100 <i>Compliance Engagements</i> and paragraph A123 of ASAE 3150 <i>Assurance Engagements on Controls</i> is necessary to assist assurance practitioners</p>	<p>Comment noted by the ATG</p> <p>The AUASB acknowledges this wording was inadvertently included and that the sentence should read ‘...the assurance practitioner shall consider the effect on the activity’s performance of events that become known to the assurance practitioner <b>up to the date</b> of the assurance report...’. This change has been reflected in paragraph 40.</p> <p>The AUASB considers it appropriate to include a similar paragraph to A50 in ASAE 3100 and A123 of ASAE 3150 which assist assurance practitioners to respond appropriately to facts that become known to them after</p>	Y	40
			Y	A48

Respondent Comment		Commentary	Change to be made to Doc? Y/N	Para No.
	to respond appropriately to facts that become known to them after the date of the assurance report.	the date of the report. This paragraph has been included at A44.		
ACAG	<p>ACAG has noted some opportunities to improve the language used in the standard. Improvements in these areas would provide greater clarity to the users of the standard and promote consistent application. In particular, ACAG notes:</p> <ul style="list-style-type: none"> <li>The Commonwealth Auditor-General is described in the proposed standard as both the 'National' and the 'Federal' Auditor-General. ACAG considers 'Commonwealth' to be the most appropriate term in the context of the Australian jurisdiction.</li> <li>The term 'Auditor-General' is inconsistently hyphenated in the proposed standard. The consistent use of 'Auditor-General' is preferred.</li> <li>There is inconsistent description of the engagement as either a 'performance engagement' or simply an 'engagement'.</li> <li>The relative pronoun 'which' is used where 'that' would be more commonly applied to reflect the apparent intention of the AUASB that the clause that follows is essential to the interpretation of the requirement.</li> </ul>	<p>Comment noted by the ATG</p> <p>The AUASB has changed the standard where appropriate to reflect these suggestions to improve clarity and promote consistent application of the standard.</p>	Y	Through out the standard

\* \* \*



**ASAE 3500**  
(September 2017)

# **Standard on Assurance Engagements**

## **ASAE 3500**

### *Performance Engagements*

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



**Australian Government**  
**Auditing and Assurance Standards Board**

## Obtaining a Copy of this Standard on Assurance Engagements

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

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**Standard on Assurance Engagements ASAE 3500**  
***Performance Engagements***

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- | Appendix 2: Example of the Elements of a Performance Engagement
- | Appendix 3: Roles and Responsibilities – Performance Engagements Initiated by an  
~~Auditor-General~~Auditor-General
- | Appendix 4: Standards Applicable to Example Engagements on an Activity's  
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## **PREFACE**

### **Reasons for Issuing ASAE 3500**

The AUASB issues Standard on Assurance Engagements ASAE 3500 *Performance Engagements* pursuant to the requirements of the legislative provisions 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 227B of the ASIC Act, the AUASB may formulate assurance standards for other purposes.

### **Main Features**

This Standard on Assurance Engagements establishes requirements and provides application and other explanatory material regarding the conduct of and reporting on a direct performance engagement. The standard replaces Standard on Assurance Engagements ASAE 3500 *Performance Engagements* last revised and issued by the AUASB in October 2008. This Standard on Assurance Engagements facilitates conformity with current AUASB Standards. The standard reflects current practice in performance engagements and clarifies how to scope, conduct and report on a performance engagement, to ensure that assurance engagement quality is maintained and where necessary improved.

### **AUTHORITY STATEMENT**

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

This Standard on Assurance Engagements is to be read in conjunction with ASA 100 *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the 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.

**Standard on Assurance Engagements ASAE 3500**  
***Performance Engagements***

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**Conformity with International Standards on Assurance Engagements**

This Standard on Assurance Engagements ASAE 3500 *Performance Engagements* has been formulated for Australian public interest purposes and there is no equivalent International Standard on Assurance Engagements (ISAE) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

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

## STANDARD ON ASSURANCE ENGAGEMENTS ASAE 3500

### *Performance Engagements*

#### Application

1. This Standard on Assurance Engagements (~~ASAE~~) applies to direct engagements to provide a reasonable assurance report on performance of an activity.

#### Operative Date

2. This Standard on Assurance Engagements is operative for assurance engagements commencing on or after 1 January 2018, with early adoption permitted prior to this date.

#### Introduction

##### Scope of this Standard on Assurance Engagements

3. This ~~Standard on Assurance Engagements (ASAE)~~ deals with direct engagements undertaken by an assurance practitioner to provide a reasonable assurance report on an activity's performance evaluated against identified criteria. This ASAE may be applied to limited assurance engagements, adapted and supplemented as necessary in the engagement circumstances. (Ref: Para A1)
4. This ASAE addresses assurance engagements on performance:
  - (a) of any activity, whether within an entity or across multiple entities;
  - (b) evaluated against identified criteria selected or developed by the assurance practitioner or the engaging party;
  - (c) providing a reasonable assurance conclusion; and
  - (d) 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.
- ~~5. This ASAE is written for reasonable assurance direct engagements but may be applied to limited assurance direct engagements, adapted as necessary to reflect the lower level of assurance obtained by the assurance practitioner.~~
- 6.5. Agreed-upon procedures engagements, where procedures are conducted and factual findings are reported but no conclusion is provided, and consulting engagements, for the purpose of providing advice, on performance are not assurance engagements and are not dealt with in this ASAE. Agreed-upon procedures engagements are addressed under Standard on Related Services, ASRS 4400.<sup>1</sup>

*Nature of a Performance Engagement (Ref: Appendix 1 and Appendix 2)*

7.6. The essential elements of performance engagements are:

- (a) a three party relationship involving:
  - (i) an assurance practitioner, ~~including~~ often a State, Territory or ~~National Commonwealth Auditor-General~~;

<sup>1</sup> See ASRS 4400 Agreed-~~U~~-pon Procedures Engagements to Report Factual Findings.



## Standard on Assurance Engagements ASAE 3500

### Performance Engagements

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- (ii) a responsible party or a number of responsible parties involved in the activities which are the subject matter of the performance engagement; and
- (iii) intended users, which are often the responsible party, Parliament and the general public;
- (b) an appropriate activity (the subject matter);
- (c) suitable criteria;
- (d) sufficient appropriate evidence; and
- (e) a written assurance report.

8.7. Performance engagements are most commonly conducted on an activity delivered or controlled by the Government. The purpose of a performance engagement is to evaluate the performance of an activity, with respect to economy, efficiency and/or effectiveness against the identified criteria. The scope of a performance engagement is either determined by an ~~Auditor General~~Auditor-General, based on the assessed information needs of Parliament, or of the general public, or by the engaging party based on the information needs of the engaging party and other identified users. (Ref: Para A2-A3)

9.8. Performance engagements are usually initiated by a State, Territory or the ~~National Commonwealth Auditor General~~Auditor-General and will not involve an engaging party, but may also be accepted by an assurance practitioner from an engaging party in the private sector. The authority of an ~~Auditor General~~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 is not usually required. The roles and responsibilities of the parties to a performance engagement initiated by an ~~Auditor General~~Auditor-General are illustrated in Appendix 3. (Ref: Para A4)

#### *Relationship with ASAE 3000, Other Pronouncements and Other Requirements*

10.9. This ASAE adapts the requirements in ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, which is written 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. 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.

11.10. This ASAE requires the assurance practitioner to apply the ASAE 3000 requirement to comply with relevant ethical requirements related to assurance engagements. It also requires the Audit Office of the ~~Auditor General~~Auditor-General to apply ASQC 1<sup>2</sup> or the lead assurance practitioner to be a member of a firm that applies ASQC 1.

12.11. 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.

<sup>2</sup> ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*.

## Standard on Assurance Engagements ASAE 3500

### Performance Engagements

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~~13.12.~~ In circumstances when an assurance engagement performed under this ASAE includes a compliance section, the assurance practitioner applies both ASAE 3100 *Compliance Engagements* and ASAE 3500 as applicable, in conducting the assurance engagement.

~~14.13.~~ 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.

~~15.14.~~ A table showing the AUASB Standards ~~that~~ apply to **certain performance** engagements, depending on the subject matter and engagement circumstances, is contained in Appendix 4.

### Objectives

~~16.15.~~ The objectives of the assurance practitioner for a performance engagement are **to**:

- (a) ~~to~~ obtain reasonable assurance about an activity's performance against identified criteria;
- (b) ~~to~~ express a reasonable assurance conclusion in a written report on the subject matter in (a) above; including describing the basis for the conclusion; and
- (c) ~~to~~ communicate further as required by this ASAE and any other relevant ASAEs.

### Definitions

~~17.16.~~ For the purposes of this ~~ASAE Standard on Assurance Engagements~~, the following terms have the meanings attributed below:

- (a) Activity—a government or private sector provision of products or services, system, operation, function or programme which 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.
- (b) 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. Where this ASAE expressly intends that a requirement or responsibility be fulfilled by the lead assurance practitioner, the term the “lead assurance practitioner” rather than “assurance practitioner” is used.
- (c) Attestation engagement—An assurance engagement in which a party other than the assurance practitioner measures or evaluates the underlying subject matter against the criteria. The outcome of that measurement or evaluation is often presented in a report or statement.
- (d) Criteria—The benchmarks used to measure or evaluate the underlying subject matter, which in a performance engagement is the activity. The “identified criteria” are the criteria used for the particular engagement.
- (e) Direct engagement on performance—A reasonable assurance engagement in which the assurance practitioner evaluates the activity's performance against the identified criteria. The outcome of the assurance practitioner's evaluation is expressed in the assurance practitioner's conclusion.

- (f) Economy—the performance principle relating to the minimisation of the costs of resources, within the operational requirements of timeliness and availability of required quantity or quality.
- (g) Effectiveness—the performance principle relating to the extent to which the intended objectives at a program or entity level are achieved.
- (h) Efficiency—the performance principle relating to the minimisation of inputs employed to deliver the intended outputs in terms of quality, quantity and timing.
- (i) Engagement risk—the risk that the assurance practitioner expresses an inappropriate conclusion.
- (j) Engaging party—The party(ies) that engages the assurance practitioner to perform the assurance engagement. In an performance engagement initiated by an Auditor General~~Auditor-General~~ there will not normally be an engaging party as the State, Territory or Federal Parliament provide the mandate for the Auditor General~~Auditor-General~~ to conduct performance engagements, but will not usually engage the Auditor General~~Auditor-General~~ to perform specific performance engagements.
- (k) Intended users—Parliament, responsible party, individual(s) or organisation(s), or group(s) thereof that the assurance practitioner expects will use the assurance report. In some cases, there may be intended users other than those to whom the assurance report is addressed, such as the general public if the assurance report is made publicly available.
- (l) Limited assurance engagement—An assurance engagement in which the assurance practitioner reduces engagement risk to a level that is acceptable in the circumstances 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 the activity has not been performed with respect to economy, efficiency and/or effectiveness as evaluated against 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 performance of the activity to a degree that is clearly more than inconsequential.
- (m) Materiality—variations in performance of an activity evaluated against the identified criteria which, ~~if omitted, misstated or not disclosed has~~have the potential to ~~adversely~~ affect ~~decisions about~~ the economy, efficiency and/or effectiveness of the activity and be reasonably expected to influence relevant decisions of the intended users or the discharge of accountability by the responsible party or governing body of the entity.
- (n) Performance engagement—An assurance engagement to conclude on the performance (expressed as either economy, efficiency and/or effectiveness) of all or a part of the activities of an entity or across multiple entities to assess performance as evaluated by identified criteria, commonly referred to as a performance audit.
- (o) Professional scepticism—an attitude that includes a questioning mind, being alert to the validity of evidence obtained and to critically assess evidence that contradicts or brings into question the reliability of documents and responses to enquiries and other information obtained.

## Standard on Assurance Engagements ASAE 3500

### Performance Engagements

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- (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 against identified criteria.
- (q) Representation—Statement by the responsible party, either oral or written, provided to the assurance practitioner to confirm certain matters or to support other evidence.
- (r) Responsible party—The party responsible for the performance of all or part of the activity, ~~in which is the subject matter of the~~ performance engagement.
- (s) Subject matter or underlying subject matter—The activity which is evaluated or measured against the identified criteria.
- (t) Variation —An instance where the performance of the underlying subject matter ~~exceeds~~does not meet in whole or part the identified criteria or is deficient in whole or part, as evaluated for example a material departure of performance against the identified criteria.

## Requirements

### Applicability of ASAE 3000

~~18.~~17. 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. ASAE 3000 contains requirements and application and other explanatory material specific to attestation assurance engagements but it may also be applied to direct engagements, adapted and supplemented as necessary in the engagement circumstances.<sup>3</sup>

### Inability to Comply with Relevant Requirements

~~19.~~18. 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.

~~20.~~19. When the assurance practitioner is unable to undertake appropriate alternative evidence-gathering procedures, the assurance practitioner shall assess the implications for the assurance report.

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<sup>3</sup> See ASAE 3000, paragraph 2.

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#### Ethical Requirements (Ref: Para A5)

~~21.20.~~ As required by ASAE 3000, the assurance practitioner shall comply with relevant ethical requirements related to assurance engagements.<sup>4</sup>

#### Initiation or Acceptance (Ref: Para A6-A21)

~~22.21.~~ The assurance practitioner shall initiate, where the assurance practitioner has the legislative mandate to do so, or accept a performance engagement only when:

- (a) ~~1~~The assurance practitioner has no reason to believe that relevant ethical requirements, including independence, will not be satisfied;
- (b) ~~1~~The assurance practitioner is satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities;
- (c) ~~1~~The preconditions for an assurance engagement are present, as required by ASAE 3000;<sup>5</sup> and
- (d) ~~1~~The basis on which the engagement is to be performed has been communicated and where relevant, agreed by the assurance practitioner and either:
  - (i) the engaging party, in written terms of engagement, including the assurance practitioner's reporting responsibilities; or
  - (ii) the responsible party, in an engagement initiated by the assurance practitioner where there is no engaging party, by issuing a written communication advising the responsible party of the planned engagement.

#### Preconditions for the Assurance Engagement

~~23.22.~~ 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:

- (a) the activities (underlying subject matter) which are to be evaluated are appropriate;
- (b) the criteria identified, selected or developed by the assurance practitioner or agreed with the engaging party are suitable in evaluating the activities, including that they exhibit the characteristics of suitable criteria;<sup>6</sup> and will be available to users;
- (c) the 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) the engagement has a rational purpose.

~~24.23.~~ 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 against which the activity's performance may be assessed. Suitable criteria for a performance engagement shall reflect the overall objective/s, the assertions to be addressed (economy, efficiency and/or effectiveness) and have the following characteristics:

<sup>4</sup> See ASAE 3000, paragraphs Aus 20.1 and ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

<sup>5</sup> See ASAE 3000, paragraph 24.

<sup>6</sup> See ASAE 3000, paragraph 24(b)(ii).

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- (a) ~~r~~Relevance: relevant criteria contribute to conclusions that assist decision-making by the intended users.
- (b) ~~c~~Completeness: criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the performance engagement circumstances are not omitted.
- (c) ~~r~~Reliability: reliable criteria allow reasonably consistent evaluation or measurement of the activity, including when used in similar circumstances by similarly qualified assurance practitioners.
- (d) ~~n~~Neutrality: neutral criteria contribute to conclusions that are free from bias.
- (e) ~~u~~Understandability: understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.

#### *Agreeing on or Communicating the Terms of the Performance Engagement*

~~25-24.~~ If the ~~performance~~ engagement is initiated by an engaging party, the assurance practitioner shall agree the terms of engagement with the engaging party in writing.

~~26-25.~~ If the ~~performance~~ engagement is initiated by a State, Territory or the ~~National Commonwealth Auditor-General~~~~Auditor-General~~ and does not involve an engaging party, then the assurance practitioner shall communicate the terms of engagement with the responsible party.

#### **Quality Control**

~~27-26.~~ The assurance practitioner shall implement quality control procedures as required by ASAE 3000.<sup>7</sup>

#### **Professional Scepticism, Professional Judgement and Assurance Skills and Techniques**

~~28-27.~~ The assurance practitioner shall apply professional scepticism, exercise professional judgement and apply assurance skills and techniques in planning and performing a performance engagement.<sup>8</sup>

#### **Planning and Performing the ~~Performance~~ Engagement (Ref: Para A22-A34)**

##### *Planning*

~~29-28.~~ The assurance practitioner shall plan the ~~performance~~ engagement so that it will be performed in an effective manner as required by ASAE 3000:<sup>9</sup> and achieves the objectives as communicated and/or agreed in the terms of engagement.

##### *Materiality*

~~30-29.~~ The assurance practitioner shall consider materiality when determining the nature, timing and extent of procedures.

~~31-30.~~ The assurance practitioner shall identify any matter relating to the activity as material if it is significant to the performance of the activity in relation to economy, efficiency and/or effectiveness evaluated against the identified criteria. During the ~~performance~~ engagement the

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<sup>7</sup> See ASAE 3000, paragraphs 31-36.

<sup>8</sup> See ASAE 3000, paragraphs 37-39.

<sup>9</sup> See ASAE 3000, paragraph 40.

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assurance practitioner shall reassess the materiality of any matter if there is any indication that the basis on which the materiality was determined has changed.

~~32-31.~~ The assurance practitioner shall also consider materiality when evaluating the effect of any identified variations, taken individually and in combination, to the performance of the activity as evaluated against the identified criteria. Material variations are those which could ~~adversely~~ impact performance in relation to economy, efficiency and/or effectiveness and be reasonably expected to influence relevant decisions of the intended users of the assurance report.

*Understanding the Activity and Other Performance Engagement Circumstances (Ref: Para A35-A39)*

~~33-32.~~ The assurance practitioner shall obtain an understanding of the activity, which is included in the scope of the performance engagement, and other engagement circumstances sufficient to enable the assurance practitioner to be able to identify and assess any risks of material variations in the activity's performance in relation to economy, efficiency and/or effectiveness as evaluated against the identified criteria.

~~33.~~ In doing so, the assurance practitioner shall obtain an understanding of ~~any~~ internal controls the assurance practitioner considers are relevant to the evaluation of the activity's performance against the identified criteria. This includes evaluating the design of those controls pertinent to the objective of the performance engagement and, if relevant, determining whether they have been implemented by performing procedures in addition to inquiry in being able to effectively prevent, detect and/or correct the risk of material variation in the activity's performance also includes determining whether the controls have been implemented (exist and are in use) by the responsible party. ~~The procedures the assurance practitioner performs are in addition to enquiry~~ of the responsible party.

34. The assurance practitioner shall implement non-compliance with laws and regulations procedures as required by ASAE 3000.<sup>10</sup>

**Obtaining Evidence (Ref: Para A40-A45)**

35. Based on the assurance practitioner's understanding obtained in paragraphs ~~32~~, ~~33~~<sup>3</sup> and ~~34~~<sup>4</sup> the assurance practitioner shall:

- (a) identify and assess the risks of material variation in the activity's performance to be concluded upon;
- (b) consider the impact of assessed risks on the appropriateness of the performance engagement objective and the suitability of the identified criteria and, if necessary, seek to amend the objective and/or identified criteria;
- (c) design and perform assurance procedures to respond to assessed risks identified in paragraph 35(a); and
- (d) obtain sufficient appropriate evidence to support the assurance practitioner's conclusion.

*Work Performed by an Assurance Practitioner's Expert*

36. 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.<sup>11</sup>

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<sup>10</sup> See ASAE 3000, paragraph 45.

<sup>11</sup> See ASAE 3000, paragraph 52.

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

37. 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.<sup>12</sup>

#### *Written Representations*

38. The assurance practitioner shall endeavour to obtain written representations, as appropriate for the **performance** engagement, from the responsible party or parties.

#### **Evaluation of Evidence (Ref: Para A46)**

39. The assurance practitioner shall evaluate the impact of identified variations in the entity's performance of the activity which are material, individually or in combination, on the assurance practitioner's conclusion. The assurance practitioner shall describe the extent and impact of those variations and conclude whether the activity partially performed or did not perform against the identified criteria in the assurance report.<sup>13</sup>

#### **Subsequent Events (Ref: Para A47)**

40. 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 after** the date of the assurance report, and shall respond appropriately to **any** 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 performance of the activity and to affect the appropriateness of the assurance practitioner's conclusion. However, the assurance practitioner has no responsibility to perform any procedures regarding performance of the activity after the date of the assurance report.

#### **Forming the Assurance Conclusion**

41. The assurance practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained in the context of the performance engagement, and if necessary, attempt to obtain further evidence. If the assurance practitioner is unable to obtain necessary further evidence, the assurance practitioner shall consider the implications for the assurance practitioner's conclusion. The assurance practitioner shall state in their conclusion that there was not sufficient or appropriate evidence to conclude whether the activity was free of material variation, in terms of economy, efficiency and/or effectiveness, as evaluated against the identified criteria.<sup>14</sup>
42. The assurance practitioner shall form a conclusion about whether the performance of **all or part of** the activity as evaluated against the identified criteria is free of material variation. In forming that conclusion, the assurance practitioner shall consider the outcomes of procedures performed in paragraphs 39, 40 and 41.

#### **Preparing the Assurance Report (Ref: Para A49-A55)**

43. The assurance report shall be in writing and shall contain a clear expression of the assurance practitioner's reasonable assurance conclusion about the activity's performance **against the objectives communicated and/or agreed in the terms of the performance engagement**.

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<sup>12</sup> See ASAE 3000, paragraphs 53-55.

<sup>13</sup> The equivalent conclusion in ASAE 3000 is a qualified or adverse conclusion.

<sup>14</sup> The equivalent conclusion in ASAE 3000 is a qualified conclusion or disclaimer.



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44. The assurance practitioner's conclusion shall be clearly separated from other sections of the assurance report containing information or explanations that are not intended to affect the assurance practitioner's conclusion, including findings and recommendations.

*Assurance Report Content*

45. The assurance report shall include at a minimum the following base elements, to the extent that it is not inconsistent with relevant legislation or regulation:
- (a) a title, indicating that it is an independent assurance report;
  - (b) an addressee;
  - (c) identification of the scope of the performance engagement including:
    - (i) the responsible party (parties);
    - (ii) the activity which was the subject matter of the performance engagement;
    - ~~(ii)(iii)~~ (iii) a description of the objective of the performance engagement;
    - ~~(iii)(iv)~~ (iv) identification of the criteria for evaluating the performance of the activity and the party specifying those criteria, if it was not the assurance practitioner; and
    - ~~(iv)(v)~~ (v) if appropriate, a description of any significant inherent limitations associated with the evaluation of the activity's performance against the identified criteria;
  - ~~(d)~~ a statement that the responsible party is responsible for the activity covered by the assurance practitioner's report;
  - ~~(e)~~ a statement that the assurance practitioner's responsibility is to express a conclusion on the activity's performance in relation to economy, efficiency and/or effectiveness as evaluated against the identified criteria;
  - ~~(f)~~ (d) a statement that the performance engagement was performed in accordance with ASAE 3500 *Performance Engagements*;
  - ~~(g)~~ a statement that:
  - ~~(i)~~ the office or firm of which the assurance practitioner is a member applies ASQC 1; ~~and~~
  - ~~(h)~~ (e) the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements;
  - ~~(i)~~ (f) a summary of the work performed by the assurance practitioner to obtain reasonable assurance and to provide a basis for the assurance practitioner's conclusion;
  - ~~(j)~~ (g) the assurance practitioner's conclusion about the performance, in terms of economy, efficiency and/or effectiveness, of the activity as evaluated against the identified criteria;
  - ~~(k)~~ (h) when the assurance practitioner has been unable to obtain sufficient appropriate evidence or has identified material variations in the activity's performance in terms of economy, efficiency and/or effectiveness as evaluated against the identified criteria, the assurance report shall contain:
    - (i) a description of the extent and impact of those matter(s); and

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- (ii) the assurance practitioner's conclusion that either the activity did not perform in certain material respects, did not perform in all material respects, or there was not sufficient or appropriate evidence to conclude whether the activity was performed.

~~49~~(i) 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.

- 46. 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.

*Scope Limitation*

- 47. 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.
- 48. 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 conclusion shall describe the limitations on their engagement and the matters on which they are unable to conclude.

**Other Communication Responsibilities**

- 49. If during the course of the **performance** engagement the assurance practitioner identifies any material variations in the activity's performance, the assurance practitioner shall report those variations to the responsible party(ies) on a timely basis in order to allow the responsible party sufficient time to investigate and respond to the identified variations.
- 50. 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 ~~that~~ 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.<sup>15</sup>
- 51. 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 A56-A58)**

- 52. The assurance practitioner shall prepare documentation in accordance with ASAE 3000.<sup>16</sup> 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

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<sup>15</sup> See ASAE 3000, paragraph 78.

<sup>16</sup> See ASAE 3000, paragraphs 79-83.

(c) who reviewed the work performed and the date.

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## **Application and Other Explanatory Material**

### **Introduction (Ref: Para 3-6)**

- A1. If the assurance practitioner initiates or accepts a limited assurance engagement on the performance of an activity, in adapting this ASAE for that purpose, 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) the needs of users will still be met by a limited assurance conclusion; and
  - (c) the assurance conclusion clearly communicates that the procedures performed vary in nature and timing from and are less in extent than for a reasonable assurance engagement and so the level of assurance obtained is substantially lower than in a reasonable assurance engagement.

### **Objectives (Ref: Para 7-8)**

- A2. The objectives of a performance engagement may be expressed in various ways and are often presented as a statement of purpose or “questions” which are considered in the context of the responsible party’s responsibilities with respect to economy, efficiency and effectiveness. In these circumstances, the assurance practitioner exercises professional judgement in determining the use of the most appropriate terminology throughout the performance engagement and especially in the assurance report.
- A3. Performance engagements may address a broad range of activities including:
- (a) systems for planning, budgeting, authorisation, control and evaluation of resource allocation;
  - (b) systems established and maintained to ensure compliance with an entity’s mandate as expressed in policies or legislation;
  - (c) resource management framework;
  - (d) measures aimed at deriving economies of scale, such as centralised resource acquisition, sharing common resources across a number of business units;
  - (e) measures aimed at improving economy, efficiency and/or effectiveness;
  - (f) governance structures, including the assignment of responsibilities and accountability;
  - (g) measures to monitor outcomes against predetermined objectives and performance benchmarks;
  - (h) program or service delivery; and
  - (i) implementation of government policy.
- 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 and/or effectiveness:
    - (i) in terms of management systems or an entity’s management in order to contribute to improvements;

- (ii) of the operations of an entity or an activity of an entity;
  - (iii) in the implementation of government policies or programs and the application of government grants;
  - (iv) in terms of financial prudence in the application of public resources; and
  - (v) of 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.

**Ethical Requirements (Ref: Para 20)**

A5. 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 21-25)**

*Preconditions for the Assurance Engagement*

- A6. 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.
- A7. 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, the assurance practitioner may need to either assemble a multi-disciplinary team or be a specialist in the relevant discipline.
- A8. When multi-disciplinary teams are used in a performance engagement, adequate direction, supervision and review are particularly important so that the team members' different perspectives, experience and specialties are appropriately used. It is important that all team members understand the objectives of the particular performance engagement and the terms of reference of work assigned to them. Adequate direction, supervision and review are important so that the work of all team members is executed properly and is in compliance with this ASAE and meets the quality control requirements of ASAE 3000.

*Assessing the appropriateness of the subject matter*

- A9. When assessing the appropriateness of the activity as the subject matter of the **performance** engagement, the assurance practitioner considers whether:
- the activity is identifiable, and its performance capable of consistent evaluation against identified criteria; and

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- the information about it is capable of being subjected to procedures for gathering sufficient appropriate evidence to support a conclusion.

A10. If after initiating or accepting the performance engagement, the assurance practitioner concludes that the activity 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.

A11. In a performance engagement initiated by the assurance practitioner, the identification of the subject matter and development of criteria will be an iterative process which evolves as the audit objective/s are clarified and refined, based on the information gathered during the **performance** engagement. As the assurance practitioner gains a better understanding of the **performance** engagement circumstances they may revise their assessment of the matters which address the needs of users.

A12. 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 A10 of this ASAE, the assurance practitioner needs to consider the implications for the assurance report.

**Assessing the Suitability of the Criteria**

A13. Criteria are the **specific** measures used to assess the performance of the activity. They may be based on relevant legislation, guidelines, internal policies and procedures, industry standards or best practice. 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 ordinarily documents why the **identifiedselected** criteria are suitable.

A14. The assurance practitioner assesses the suitability of the criteria to evaluate or measure the performance of the activity, with respect to economy, efficiency and/or effectiveness to be addressed within the scope of the **performance** engagement.

A15. Criteria may range from general to specific. General criteria are broad statements of acceptable and reasonable performance. Specific criteria, **often referred to as sub-criteria or lines of enquiry**, are derived from general criteria and are more closely related to an entity's governing legislation or mandate, objectives, programs, systems and controls.

A16. Criteria are either established or specifically developed. Ordinarily, established criteria are suitable when they are relevant to the needs of the intended users. Specific users may, however, develop a more detailed set of criteria that meet their specific needs in which 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

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- that the assurance report is only for the use of the intended users and for their purposes.

A17. 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.

A18. 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.

*Agreeing on or Communicating the Terms of the Performance Engagement*

A19. The terms of the performance engagement normally identify:

- (a) the objectives of the engagement;
- (b) that the engagement is a reasonable assurance engagement;
- (c) the activity to be evaluated in the engagement;
- (d) the period to be covered by the engagement;
- (e) whether economy, efficiency and/or effectiveness is to be addressed and suitable criteria, in so far as the criteria have been identified, against which the activity will be evaluated;
- (f) the intended users of the assurance report;
- (g) the base elements of the assurance report; and
- (h) any other matters required by law or regulation to be included in the terms of engagement.

A20. 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 performanceassurance engagement; or
- (c) unrestricted access to persons engaged in the activity from whom the assurance practitioner determines it necessary to obtain evidence.

A21. If there is no engaging party, such as for performance engagements initiated by an Auditor General/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.

**Planning and Performing the Performance Engagement (Ref: Para 28-31)**

- A22. Planning involves developing an overall strategy for the scope, emphasis, timing and conduct of the performance engagement, ~~and a~~ The performance engagement plan, consists ~~ing~~ 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:
- ~~h~~Helps to devote appropriate attention to important areas of the performance engagement, 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;
  - ~~a~~Assists the assurance practitioner to properly assign work to performance engagement team members, and facilitates their direction and supervision and the review of their work; and
  - ~~a~~Assists, where applicable, the coordination of work done by other assurance practitioners and experts.
- A23. 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:
- ~~t~~The terms of the performance engagement.
  - ~~t~~The characteristics of the activity and the identified criteria.
  - ~~t~~The performance engagement process and possible sources of evidence.
  - ~~t~~The assurance practitioner's understanding of the activity and other performance engagement circumstances.
  - ~~i~~Identification of intended users and their needs, and consideration of materiality and the assessment of risk.
  - ~~p~~Personnel and expertise requirements, including the nature and extent of involvement by experts.
- A24. 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.
- A25. In planning the performance engagement, if the scope of the engagement is based on overall objectives, then the assurance practitioner may identify sub-objectives from which they can identify, select or develop the criteria, against which the activity's performance can be evaluated.

*Materiality*

- A26. Professional judgements about materiality ~~is~~are made in light of surrounding circumstances, but ~~is~~are not affected by the level of assurance. Materiality for a reasonable assurance engagement is the same as for a limited assurance engagement because materiality is based on the information needs of intended users.
- A27. The identified criteria may discuss the concept of materiality in the context of the preparation and presentation of the assurance report and thereby provide a frame of reference for the



assurance practitioner in considering materiality for the engagement. Although identified criteria may discuss materiality in different terms, the concept of materiality generally includes the matters discussed in paragraphs A28–A34~~6~~. If the identified criteria do not include a discussion of the concept of materiality, these paragraphs provide the assurance practitioner with a frame of reference.

A28. Variations in performance, including omissions, are considered to be material if they, individually or in combination, could reasonably be expected to influence relevant decisions of intended users taken on the basis of the assurance report. The assurance practitioner’s consideration of materiality is a matter of professional judgement, and is affected by the assurance practitioner’s perception of the common information needs of intended users as a group. In this context, it is reasonable for the assurance practitioner to assume that intended users:

- (a) ~~h~~Have a reasonable knowledge of the activity, and a willingness to study the assurance report with reasonable diligence;
- (b) ~~u~~Understand that the assurance report is prepared and assured to appropriate levels of materiality, and have an understanding of any materiality concepts included in the identified criteria;
- (c) ~~u~~Understand any inherent uncertainties involved in the measuring or evaluating the activity; and
- (d) ~~m~~Make reasonable decisions on the basis of the assurance report taken as a whole.

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.

A29. Materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. The relative importance of qualitative factors and quantitative factors when considering materiality in a particular **performance** engagement is a matter for the assurance practitioner’s professional judgement.

A30. Qualitative materiality factors may include such things as:

- ~~t~~The number of persons or entities affected by the subject matter.
- ~~t~~The interaction between, and relative importance of, various components of the activity when it is made up of multiple components, such as a report that includes numerous performance indicators.
- ~~t~~The wording chosen with respect to the activity that is expressed in narrative form.
- ~~t~~The characteristics of the presentation adopted for the assurance report when the identified criteria allow for variations in that presentation.
- ~~t~~The nature of a variation, for example, the nature of observed variations from a control when the assurance report includes a statement that the control is effective.
- ~~w~~Whether a variation affects compliance with law or regulation.
- ~~i~~n the case of periodic reporting on an activity, the effect of an adjustment that affects past or current activities or is likely to affect future activities.
- ~~w~~Whether a variation is the result of an intentional act or is unintentional.

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- ~~w~~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 measurement or evaluation of the underlying subject matter.
- ~~w~~Whether a variation relates to the relationship between the responsible party, the measurer or evaluator, or the engaging party or their relationship with other parties.
- ~~w~~When a threshold or benchmark value has been identified, whether the result of the procedure deviates from that value.
- ~~w~~When the underlying subject matter is a governmental program or public sector entity, whether a particular aspect of the program or entity is significant with regard to the nature, visibility and sensitivity of the program or entity.

A31. Quantitative materiality factors relate to the magnitude of variations relative to reported amounts for those aspects of the assurance report, if any, that are:

- ~~e~~Expressed numerically; or
- ~~o~~Otherwise related to numerical values (for example, the number of observed deviations from a control may be a relevant quantitative factor when the assurance report is a statement that the control is effective).

A32. When quantitative factors are applicable, planning the ~~performance~~ engagement solely to detect individually material variations overlooks the fact that the combination of uncorrected and undetected individually immaterial variations may cause the assurance report to be materially misstated. It may therefore be appropriate when planning the nature, timing and extent of procedures for the assurance practitioner to determine a quantity less than materiality as a basis for determining the nature, timing and extent of procedures.

A33. Materiality relates to the information covered by the assurance report. Therefore, when the ~~performance~~ engagement covers some, but not all, aspects of the information communicated about an underlying subject matter, materiality is considered in relation to only that portion that is covered by the ~~performance~~ engagement.

A34. Concluding on the materiality of the variations identified as a result of the procedures performed requires professional judgement. For example:

- ~~f~~The identified criteria for a value for money engagement for a hospital's emergency department may include the speed of the services provided, the quality of the services, the number of patients treated during a shift, and benchmarking the cost of the services against other similar hospitals. If three of these identified criteria are satisfied but one applicable criterion is not satisfied by a small margin, then professional judgement is needed to conclude whether the hospital's emergency department represents value for money as a whole.

*Understanding the Activity and Other ~~Performance~~ Engagement Circumstances (Ref: Para 32-33)*

A35. Obtaining an understanding of the activity and other performance engagement circumstances is an essential part of planning and conducting a performance engagement. That understanding provides the assurance practitioner with a frame of reference for exercising professional judgement throughout the performance engagement, for example, when:

- ~~c~~Considering the characteristics of the activity.
- ~~a~~Assessing the suitability of criteria.

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**Performance Engagements**

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- ~~a~~Assessing systems established and maintained for ensuring compliance with an entity's mandate or internal controls as expressed in policies and legislation.
- ~~i~~Identifying where special consideration may be necessary, for example factors indicative of wastage or fraud, and the need for specialised skills or the work of an expert.
- ~~e~~Establishing and evaluating the continued appropriateness of quantitative levels of performance (where appropriate), and considering qualitative materiality factors or benchmarks.
- ~~d~~Developing expectations for use when undertaking analytical procedures.
- ~~u~~Use of data analytical tools to undertake the engagement.
- ~~d~~Designing and undertaking further evidence-gathering procedures to reduce risk to an appropriate level.
- ~~e~~Evaluating evidence, including the reasonableness of the responsible party's oral and written representations.

- A36. In a performance engagement, understanding internal controls relevant to the underlying subject matter assists the practitioner in identifying the types of variations and factors that affect the risks of significant variation. Professional judgment is needed to determine which controls are relevant in the engagement circumstances.
- A37. When the objective of a performance engagement is to assess the design or implementation of controls over a process (for example, a process for dealing with patients in a hospital emergency room), the assurance practitioner is required, during the initial planning phase, to identify the internal controls to the extent necessary to inform the engagement scope and the risk assessment. The assurance practitioner is not required to evaluate the design or determine the implementation of the controls during the initial planning phase. This work would be performed later in the engagement since internal controls form the underlying subject matter for this engagement.
- A38. When the objective of a performance engagement is to conclude on a specific outcome of a process, controls 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 was compliance with the stated policies.
- A39. When controls are pertinent to the objective of a performance engagement, the practitioner evaluates the design of internal controls by documenting the key controls, and identifying deficiencies such as poorly designed or missing controls, if any. To determine if the controls have been implemented, the practitioner often may perform walk-throughs, or observe the control being performed by, for example, the responsible party's personnel.

**Obtaining Evidence (Ref: Para 35-38)**

- A40. 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.

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A41. 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.

A42. In a performance engagement if the assurance practitioner becomes aware of a matter that leads the assurance practitioner to question whether sufficient appropriate evidence has been obtained, the assurance practitioner ordinarily pursues the matter by undertaking other evidence-gathering procedures sufficient to enable the assurance practitioner to report.

*Written Representations*

A43. 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.

A44. 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 material effect on the evaluation or measurement of the activity, 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.

A45. Written representations may include that the responsible party:

- (a) acknowledges its responsibility for conducting the activity, intended to achieve a certain level of performance;
- (b) has provided the assurance practitioner with all relevant information and access agreed to, as set out in paragraph A20;
- (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.

**Evaluation of Evidence (Ref: Para 39)**

A46. The assurance practitioner needs to consider the impact of material variations in the performance of the activity when evaluated against the identified criteria, on the conclusions in the assurance report. A variation is material when, in the assurance practitioner's judgement, it has the potential to **adversely** affect:

- (a) decisions made by intended users about the performance (economy, efficiency and/or effectiveness) of an activity; or
- (b) the discharge of accountability by the responsible party or the governing party of the entity.

Further guidance on the qualitative and quantitative factors for the assurance practitioner to consider with regard to variations in performance of an activity refer to A30-A34.

**Subsequent Events (Ref: Para 40)**

**A47.** 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 and to affect the

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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.

~~A47-A48.~~ The assurance practitioner does not have any responsibility to perform procedures or make any enquiry after the date of the report. If however, 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".

#### Preparing the Assurance Report (Ref: Para 43-48)

~~A48-A49.~~ There may be circumstances where an ~~Auditor-General~~~~Auditor-General~~, having conducted a performance engagement, decides not to report to Parliament or to publish an assurance report. The ~~Auditor-General~~~~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 Public accounts and estimates to the relevant Parliamentary Committee (PAEC) or other appropriate user, in confidence. The ~~Auditor-General~~~~Auditor-General~~ considers the public interest in determining whether the assurance report will be made publicly available.

~~A49-A50.~~ This ASAE does not require a standardised format for reporting on performance engagements even though paragraph 45 identifies the basic elements of the assurance report. For instance, under:

- ~~p~~Paragraph 45(a), the title of the assurance report may differ depending on whether the assurance practitioner is an Auditor-General or a practitioner in the private sector. However, in both instances the title would convey that it is an independent report.
- ~~p~~Paragraph 45(g), the assurance practitioner's conclusions may be drafted as appropriate to recognise local legislation or custom and may be worded in terms of a response to the statement of purpose or the audit question.

~~A50-A51.~~ Therefore, assurance reports are tailored to the specific performance engagement circumstances with the assurance practitioner using professional judgement in deciding how best to meet the reporting requirements detailed in paragraph 45 in conveying the conclusion(s). The assurance practitioner includes the matters in paragraph 45 as a minimum and reports in the manner and to the extent necessary to facilitate effective communication to the intended users. Whilst the assurance conclusion makes a clear statement communicating the assurance practitioner's conclusion, the assurance report may include other matters which the assurance practitioner considers meet the information needs of the intended users, such as:

- terms of the performance engagement;
- overall objectives and sub-objectives of the performance engagement;
- identified criteria applied;
- findings relating to particular aspects of the performance engagement; and
- in some cases, recommendations.

Ordinarily, any findings and recommendations are clearly separated from the assurance practitioner's conclusion on the performance of the activity.

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#### *Reporting Findings, Recommendations and Responsible Party Comments*

~~A51.~~~~A52.~~ The assurance practitioner may expand the assurance report to include other information and explanations, including:

- ~~r~~Relevant background information and historical context.
- ~~t~~The assurance approach.
- ~~u~~Underlying facts and identified criteria applied.
- ~~d~~Disclosure of materiality levels.
- ~~f~~Findings relating to particular aspects of the performance engagement.
- ~~a~~Analysis of the causes of variations in the activity's performance.
- ~~r~~Recommendations to address variations identified.
- ~~c~~Comments received in response to the report from the responsible party/ies.

~~A52.~~~~A53.~~ The decision to include any such information depends on its significance to the needs of the intended users. Additional information is clearly separated from the assurance practitioner's conclusion and worded in such a manner so as not to affect that conclusion.

#### *Variations in the Activity's Performance*

~~A53.~~~~A54.~~ If material variations are identified, the assurance practitioner's conclusion clearly reflects that either:

- (a) the activity did not perform, in terms of economy, efficiency and/or effectiveness, with respect to the identified criteria of the activity or certain objectives or sub-objectives of the performance engagement;
- (b) the activity did not perform, in terms of economy, efficiency and/or effectiveness with respect to the identified criteria of the activity or the objective of the performance engagement, as a whole; or
- (c) the assurance practitioner was unable to conclude on the activity's performance when the assurance practitioner was unable to obtain sufficient appropriate evidence regarding the activity's performance as a whole.

~~A54.~~~~A55.~~ The assurance practitioner's conclusions described in paragraph ~~A5449~~, are equivalent modified conclusions under ASAE 3000 and the equivalent terms in ASAE 3000<sup>17</sup> are:

- ~~a~~A qualified conclusion – circumstances described in sub-paragraph A54(a).
- ~~a~~An adverse conclusion – circumstance described in sub-paragraph A54(b).
- ~~a~~A disclaimer of conclusion – circumstance described in sub-paragraph A54(c).

#### **Documentation (Ref: Para 52)**

~~A55.~~~~A56.~~ 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

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<sup>17</sup> See ASAE 3000, paragraphs 74-75.

**Standard on Assurance Engagements ASAE 3500**  
***Performance Engagements***

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documentation to include the relevant facts that were known by the assurance practitioner at the time the conclusion was reached.

~~A56-A57.~~ In applying professional judgement to assessing the extent of documentation to be prepared and retained, the assurance practitioner considers what is necessary to provide an understanding of the work undertaken, the results of that work, the evidence obtained and the basis of the principal decisions taken to another experienced assurance practitioner, who has no previous connection with the performance engagement. It is, however, neither necessary nor practicable to document every matter the assurance practitioner considers during the performance engagement.

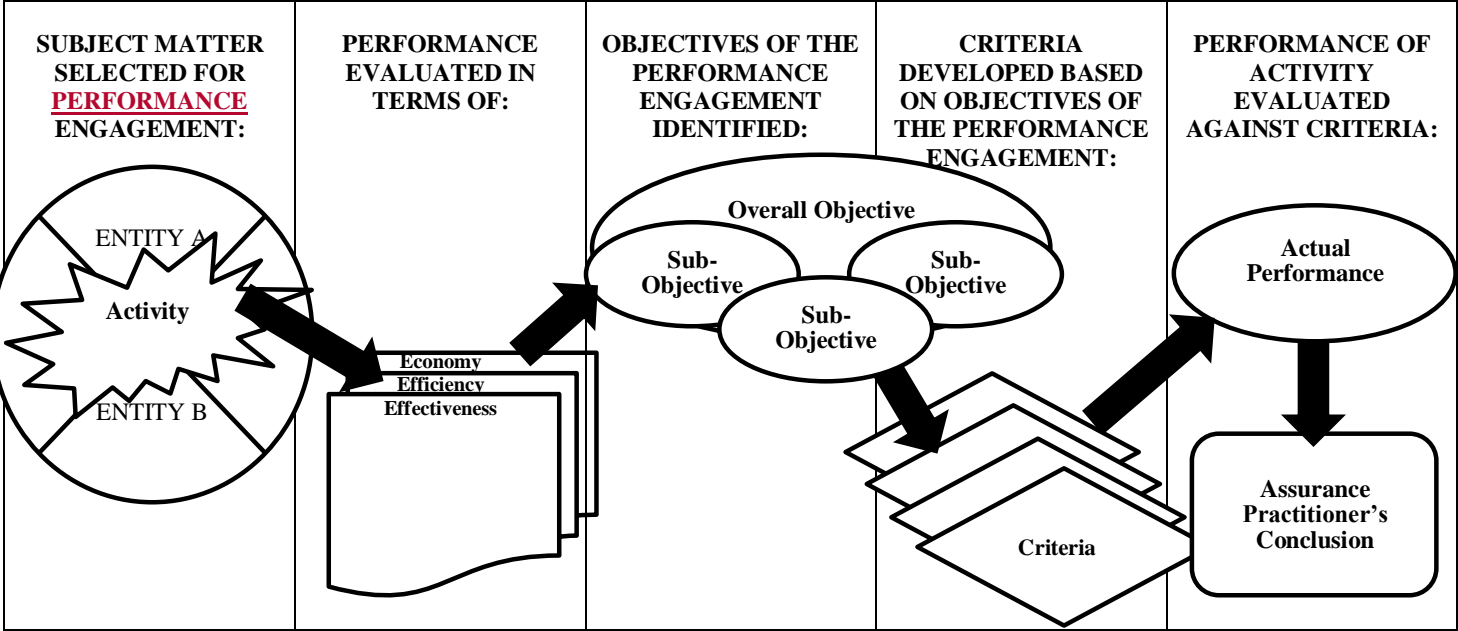
~~A57-A58.~~ Identifying characteristics of the activity's performance being tested that the assurance practitioner may document include:

- (a) subject matter; and
- (b) assertions being tested.

Appendix 1

(Ref: Para.6 )

THE NATURE OF A PERFORMANCE ENGAGEMENT





## Appendix 2

(Ref: Para.6 )

### EXAMPLE OF THE ELEMENTS OF A PERFORMANCE ENGAGEMENT

Engagement Objective/ Audit Question/ Scope	Performance Assertion	Subject Matter/ Activity	Agency/ Entity	Identified Criteria	Assurance Conclusion
How effectively pests are managed in the jurisdiction?	Effectiveness	Management of existing pests.	Public sector agencies and landholders	<ul style="list-style-type: none"> <li>• Framework for management of pests.</li> <li>• Co-operation &amp; collaboration between agencies and landholders co-ordinated.</li> <li>• Pest control activities based on identified priorities including: <ul style="list-style-type: none"> <li>- Prevention of new pests.</li> <li>- Highest environmental impact.</li> <li>- Greatest chance of controlling pest.</li> </ul> </li> </ul>	<p>Conclude that pests were managed effectively; <del>or:</del></p> <p><del>Conclude</del> that pests were not managed effectively due to:</p> <ul style="list-style-type: none"> <li>- Lack of a jurisdiction-wide plan to implement framework and allocate roles &amp; responsibilities.</li> <li>- Little monitoring or enforcement of landholders responsibilities regarding pest control; <del>or:</del></li> </ul> <p><del>Conclude</del> that there is insufficient evidence as to whether or the extent to which pests are managed effectively due to:</p> <ul style="list-style-type: none"> <li>- Lack of adequate and reliable data collection and sharing on pest numbers, types, geographic spread and pest control measures undertaken to inform resource allocation and priorities.</li> </ul>

Standard on Assurance Engagements ASAE 3500  
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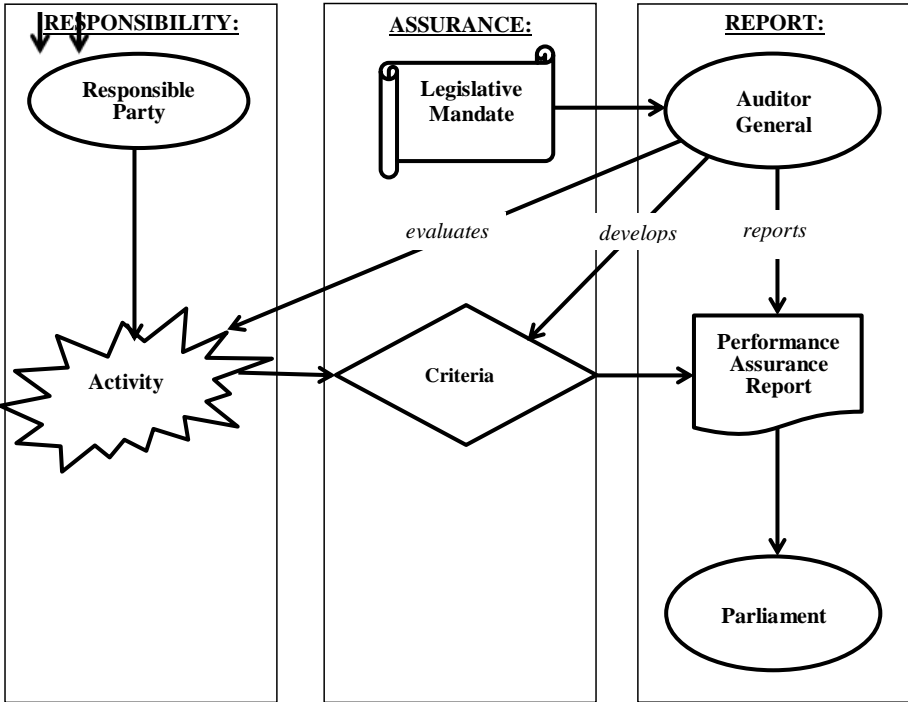
Engagement Objective/ Audit Question/ Scope	Performance Assertion	Subject Matter/ Activity	Agency/ Entity	Identified Criteria	Assurance Conclusion
					- Lack of adequate data on threats of new pests from other jurisdictions.

Appendix 3

(Ref: Para.8 )

ROLES AND RESPONSIBILITIES – PERFORMANCE ENGAGEMENTS  
INITIATED BY AN ~~AUDITOR-GENERAL~~AUDITOR-GENERAL

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



Under their legislative mandate, the ~~Auditor-General~~Auditor-General selects an activity, conducted by the responsible party or parties, to be the subject matter of a performance engagement. The ~~Auditor~~Auditor-General identifies economy, efficiency and/or effectiveness to be applied and develops suitable criteria against which to assess performance. The ~~Auditor-General~~Auditor-General evaluates the activity, in terms of economy, efficiency and/or effectiveness, against those identified criteria to obtain assurance on which to base their conclusion. The performance assurance report is ordinarily tabled in Parliament.

## Appendix 4

(Ref: Para.14 )

### STANDARDS APPLICABLE TO EXAMPLE ENGAGEMENTS ON AN ACTIVITY'S PERFORMANCE

SUBJECT MATTER	TYPE	ASAE 3000 Assurance Engagements (not Historical Financial Information)	ASAE 3100 Compliance Engagements	ASAE 3150 Assurance Engagements on Controls	ASAE 3500 Performance Engagements
1. Performance of an activity in achieving economy, efficiency and/or effectiveness, where there is no attestation (direct engagement)	<u>Direct</u>	✓ <sup>18</sup>			✓
2. Performance of an activity <del>to</del> <u>complying</u> with legislative and regulatory requirements	<u>Direct or Attest</u>	✓	✓		
3. Design and operating effectiveness of controls over <del>an activity's performance in achieving</del> economy, efficiency and/or effectiveness.	<u>Direct or Attest</u>	✓		✓	

<sup>18</sup> 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.

The Chairman  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
MELBOURNE VIC 8007

17 July 2017

Dear Professor Simnett

Exposure Draft ED 01/17 Proposed Standard on Assurance Engagements ASAE 3500  
*Performance Engagements*

Ernst & Young Australia welcomes the opportunity to offer its views on the exposure draft Proposed Standard on Assurance Engagements ASAE 3500 *Performance Engagements*, issued by the Auditing and Assurance Standards Board (AUASB). We support the approach the AUASB has taken in updating this standard which was last revised and issued by the AUASB in 2008.

Our views on the AUASB's Specific Questions in relation to ED 01/17

1. *Have applicable laws and regulations been appropriately addressed in the proposed standard?*
2. *Are there any references to relevant laws or regulations that have been omitted?*
3. *Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?*
4. *What, if any, are the additional significant costs to/benefits for assurance practitioners and the public sector arising from compliance with the main changes to the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of performance engagements?*
5. *Will there be any difficulties in implementing the requirements?*
6. *Are there any other significant public interest matters that constituents wish to raise?*

We believe that all applicable laws and regulations have been appropriately addressed in the proposed standard. We are not aware of any omitted references. Furthermore, we are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard. In our view, there are no additional significant costs to/ benefits arising from compliance with the requirements of the proposed standard. We foresee no difficulties in implementing the requirements and believe there are no other significant public interest matters to raise.

We welcome the opportunity to contribute to the improvement of Auditing and Assurance Standards that will continue to drive the quality and consistency of such services in Australia. We would be pleased to discuss our comments with members of the Auditing and Assurance Standards Board and its staff. Should you wish to do so, please contact myself on 02 8295 6882.

Yours sincerely



Kathy Parsons  
Oceania Professional Practice Director - Assurance  
Ernst & Young



21 July 2017

Professor Roger Simnett AO  
Chair  
Auditing and Assurance Standards Board  
PO Box 204  
Collins St West Victoria 8007  
AUSTRALIA

Dear Professor Simnett

**AUASB Exposure Draft 01/17 Proposed Standard on Assurance Engagements ASAE  
3500 Performance Engagements**

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on the above exposure draft. The views expressed in this submission represent those of all Australian members of ACAG.

As ACAG members discussed with the AUASB through the Project Advisory Group consultation process, the intention of the AUASB to prepare the proposed standard as a sector-neutral performance engagement standard within the *Framework for Assurance Engagements* (the Framework) diminishes the potential value of the proposed standard to the public sector. Its value could be greatly enhanced if it was specifically prepared for public sector auditors with more consideration of better practice in reporting to Parliament and less consideration for consistency of reporting with the Framework.

Putting aside that issue, overall, ACAG supports the proposed standard. However, we have identified some areas that could be improved or refined to help with its practical application.

ACAG appreciates the opportunity to respond and trusts that you find our comments useful.

Yours sincerely

Andrew Greaves  
**Chairman**  
**ACAG Financial Reporting and Auditing Committee**



## **General Matters**

ACAG notes that the proposed standard does not acknowledge the common Australian practice of establishing an overall audit objective at the commencement of a performance engagement.

This conceptually is distinct from the general engagement objective referred to in paragraph 16, and may differ from the program or entity level objectives referred to in paragraph 17(g).

The formulation of a specific audit objective is an important early stage of audit planning, particularly for a direct engagement, as it informs the identification, selection or development of criteria relevant to the evaluation of the performance of an activity with respect to economy, efficiency and effectiveness.

The existing standard acknowledges the important role of the audit objective in planning the engagement (paragraph 32) and reporting on the audit (paragraph 82), and ACAG recommends the retention of the intent and wording of these requirements.

While the proposed standard does not prevent the setting of an audit objective, ACAG would prefer that it recognised the setting of objectives and concluding on objectives as essential steps in conducting a performance engagement.

## **Responses to Request for Comments**

### **1. Have applicable laws and regulations been appropriately addressed in the proposed standard?**

ACAG makes no comment on this matter.

### **2. Are there any references to relevant laws and regulations that have been omitted?**

ACAG makes no comment on this matter.

### **3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

ACAG is not aware of any such laws and regulations.

### **4. What, if any, are the additional significant costs to/benefits for assurance practitioners and the public sector arising from compliance with the main changes to the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of performance engagements?**

ACAG considers that the main changes in the proposed standard are broadly consistent with current practice so ACAG does not anticipate that there will be any significant costs arising from compliance with the main changes to the requirements of the proposed standard.

### **5. Will there be any difficulties in implementing the requirements?**

#### **5.1 Paragraph 34 – Understanding internal controls**

ACAG notes the potential for inconsistent application of paragraph 34 of the proposed standard. This is due in part to this paragraph introducing a new mandatory requirement to understand internal control by evaluating the design and implementation of controls.



This may be construed as implying a level of testing of the relevant controls, in addition to obtaining an understanding, however it is not clear whether this is the intention and, if so, what the nature, timing and extent of procedures should be.

ASAE 3000 provides no greater clarity in this regard. By way of contrast, ASA 315, paragraph A74 clarifies the types of procedures used in gaining an understanding of the design and implementation of financial reporting controls.

Also, the paragraph is not clear about the circumstances when internal controls will be considered relevant to the evaluation of an activity's performance.

ACAG notes the development of the recent Canadian Standard on Assurance Engagements CSAE 3001 *Direct Engagements* considered this matter. The Basis for Conclusions states "...the AASB decided to word paragraph 52R of CSAE 3001 so the focus is on controls pertinent to the objectives of the engagement and that work on evaluating the design and implementation of controls would be undertaken when relevant to that engagement." Additional explanatory material paragraphs were added to CSAE 3001. ACAG suggests a similar approach for the proposed standard.

## **5.2 Paragraph 45 – Assurance report content**

ACAG notes that the minimum requirements to be included in a performance audit report as prescribed in paragraph 45 contain some elements not currently presented in practice. As such, the inclusion of all of these elements would require significant changes to existing performance audit reporting custom.

In addition, ACAG recommends clarification as to the appropriate level of criteria required to be reported in accordance with subparagraph 45(c)(iii). In performance audit practice it is common for multiple levels of criteria to be developed, which may be described as 'lines of enquiry', 'criteria' or 'sub-criteria'. Inconsistency in reporting is likely to result without further clarification as to which levels of criteria should be reported as a minimum.

## **5.3 Paragraph 15 – Relationship with other standards**

ACAG considers that the interpretation and application of paragraph 15 may be difficult because the table in Appendix 4 appears to be incomplete and/or confusing. The intention of the AUASB for the inclusion of this appendix is not clear. Specifically, under Subject Matters 2 and 3, ACAG considers ASAE 3500 ought to be ticked given that the table is describing subject matter evaluations that could be performance engagements. With particular reference to Subject Matter 3 which refers to the design and operating effectiveness of controls, the table also may cause confusion because paragraph 34 of the proposed standard requires an understanding of internal controls that includes an evaluation of the design and implementation of relevant controls.

## **6. Are there any other significant public interest matters that constituents wish to raise?**

ACAG is not aware of any other significant public interest matters.

## Other comments

ACAG recommends clarification of intent, or the correction of an apparent error, in paragraph 40 of the proposed standard. The paragraph states ‘...the assurance practitioner shall consider the effect on the activity’s performance of events that become known to the assurance practitioner **after the date** of the assurance report...’ [emphasis added].

For consistency with ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, the existing standard on performance engagements and the *Framework for Assurance Engagements*, ACAG considers that the paragraph ought to read ‘...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...’ [emphasis added].

ACAG also considers that guidance similar to that provided in paragraph A50 of ASAE 3100 *Compliance Engagements* and paragraph A123 of ASAE 3150 *Assurance Engagements on Controls* is necessary to assist assurance practitioners to respond appropriately to facts that become known to them after the date of the assurance report.

ACAG has noted some opportunities to improve the language used in the standard. Improvements in these areas would provide greater clarity to the users of the standard and promote consistent application. In particular, ACAG notes:

- The Commonwealth Auditor-General is described in the proposed standard as both the ‘National’ and the ‘Federal’ Auditor-General. ACAG considers ‘Commonwealth’ to be the most appropriate term in the context of the Australian jurisdiction.
- The term ‘Auditor-General’ is inconsistently hyphenated in the proposed standard. The consistent use of ‘Auditor-General’ is preferred.
- There is inconsistent description of the engagement as either a ‘performance engagement’ or simply an ‘engagement’.
- The relative pronoun ‘which’ is used where ‘that’ would be more commonly applied to reflect the apparent intention of the AUASB that the clause that follows is essential to the interpretation of the requirement.

# Standard Setting in the Public Interest

## *Enhancements for the Future*

### Success with the Current Model

The current standard setting model is premised on **collaboration between private and public sectors**, recognizing that the public interest is best protected when all stakeholders cooperate and exercise their public interest obligations.

Importantly, this model has been in place for over a **decade**, and has produced high-quality standards which are widely accepted around the world.

- **More than 100 jurisdictions** have either directly adopted, or use IAASB and IESBA standards as the basis for their national standards with many incorporating them into legislation or adopting them directly as national standards.
- Checks and balances are in place, overseen by an oversight body, to ensure that no single stakeholder can exercise undue influence over the development of standards.
- Each Standard Setting Board (SSB) is composed of members with a diverse set of technical, professional and geographic backgrounds.
- Consultative Advisory Groups (CAGs), which also represent broad stakeholder groups and concerns, provide technical input into development of standards.
- IFAC provides funding and operational support to the SSBs, but carefully avoids any actions that could be perceived as influencing the strategy, work plans or content of the standards.
- IFAC's Compliance Program effectively promotes the adoption and supports the implementation of international standards in **more than 135 jurisdictions around the world**.
- Despite not being enshrined in European legislation, **26 of the 28 Member States of the European Union have adopted International Standards on Auditing (ISA)**.

MORE THAN  
**100**

JURISDICTIONS HAVE EITHER  
DIRECTLY ADOPTED, OR  
USE IAASB AND IESBA  
STANDARDS

**26 of 28**

EUROPEAN UNION MEMBER  
STATES HAVE ADOPTED  
INTERNATIONAL STANDARDS  
ON AUDITING (ISA).

**The legitimacy of standards** comes from the representative composition of SSBs, the stringent, transparent, due process and the structure of the model that protects the public interest.



## Enhancing the Current Model

IFAC is committed to ensuring standard setting remains relevant, innovative and responsive to meet the challenges of a digital age and supports periodic reviews of the standard setting model to assess potential enhancements that could make a good model better. When considering potential enhancements, it is important to keep in mind:

- **Understanding Impetus Behind Change.** For many stakeholders, it is not clear why the current system needs fundamental change, especially as concerns have not been verified and are focused on perceptions and not on any deficiencies in the quality of standards.
- **Consequences to Change.** Any changes to the current model must avoid unnecessary implementation risk and carefully consider the potential for unintended consequences and must have broad consensus among all stakeholders.
- **International vs. National Standards.** International Standard setting is very different from national standard setting.
  - International standard setters do not have the authority to mandate the use of standards. Instead, International standard setters create support among key stakeholder groups.
  - With no legal standing to require adoption of standards, the IAASB and IESBA work to persuade national jurisdictions through technical credibility, representativeness, and thoroughness of due process.
    - This contrasts with national standard setters who operate with a mandate under law. Any public consultation and due process undertaken is more for due diligence. Broad acceptance is desirable but not essential.
- **Serving the Public Interest.** International standards are an international public good, developed in the public interest—not just the domain of any one region. Many nations do not have resources and capability to develop their own standards and rely on the international SSBs.
- **Awareness of Risk.** Departure from the principle of a balanced multi-stakeholder model will risk all public interest elements not being appropriately considered.
- **Ensure Technical Involvement for Standards Development.** Without the appropriate involvement of the profession, standards may be developed that cannot be readily adopted and implemented, or may inappropriately and unknowingly impose greater costs, which will be passed onto companies.
- **Global Representation.** If there is reduced global representation in standard setting, there is greater potential for national-based changes, amendments, and revisions to standards, significantly reducing the benefits and relevance of globally accepted standards, adopted consistently.

## IFAC Recommendations

Specifically, IFAC believes that potential enhancements should be considered under three broad topics:

### Perceptions of Independence

- **Independent Governance.** To further enhance perceptions of independence, the Nominating Committee Chair should be fully independent of IFAC, the MG, and the PIOB.
- **Stakeholder Representation–NC.** The Nominating Committee (NC) must represent an equal number of nominees from the accountancy profession, and from other stakeholders. Technical knowledge is vital to effectively evaluate nominations to technical standards setting board. It is critical that members of the NC are not nominated by, or members of, the body that oversees and approves the NC due process.
- **Credibility.** The stringency of the process undertaken by the NC must be retained to ensure the credibility and legitimacy of the process.
- **Stakeholder Representation–SSBs.** To further guard against perceptions that the SSBs are dominated by the accountancy profession, their composition should be defined by the various stakeholder groups that have interest in international standard setting, including users, regulators, and the accountancy profession.
- **Funding Model Reform.** The funding model should be reformed to ensure support from all stakeholders involved. This will further mitigate potential conflicts of interest and reinforce a multi-stakeholder composition. Funding currently rests with IFAC and small contributions from the international regulatory community.

### Operating Processes and Efficiencies

- **Technical Work Standards.** To ensure the continued development of high-quality, broadly adopted standards, SSB size and focus on detailed technical work must be maintained.
- **Speed of Standard Setting.** While the speed of standard setting by the IAASB and IESBA is faster than comparable SSBs, (e.g., IASB & PCAOB), improvements in due process arrangements discussed and agreed between the SSBs and the PIOB, including additional flexibility for emerging issues, will enhance speed.

### Governance Arrangements

- **Due Process Oversight.** The PIOB must revert to its original mandate to focus only on due process oversight. Protecting the public interest is not the sole responsibility of just one stakeholder. The PIOB should be renamed the “Due Process Oversight Board” to clarify and reinforce its role as a true multi-stakeholder board premised on transparency, accountability and geographic diversity.
- **Transparency.** Open all meetings and agenda papers of the PIOB to the public, to provide transparency into deliberations and decision-making.



# AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.**        **8**

**Meeting Date:**            12 September 2017

**Subject:**                 AUASB Technical Work Program and Strategic Projects

**Date Prepared:**         5 September 2017

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☒ **Action Required**

☐ **For Information Purposes Only**

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## Agenda Item Objectives

1. Discuss and capture AUASB feedback on:
  - (a) the Project Outlines for four of the eight strategic projects included in the AUASB's 2017-18 Technical Work Program; and
  - (b) the list of tasks and projects listed in the AUASB's 2017-18 Technical Work Program.

## Background

1. At the July 2017 AUASB meeting the AUASB gave their feedback on priorities for the 2017-18 AUASB Corporate Plan and Technical Workplan. The eight areas of focus the AUASB concluded upon were:
  - (a) Auditor Reporting Implementation
  - (b) Coordination and cooperation with Regulators
  - (c) Assurance over Emerging Forms of External Reporting (EER)
  - (d) Auditing and Assurance issues in the Charities and NFP sector
  - (e) Public Sector Auditing and Assurance Issues
  - (f) Consideration of matters related to small and medium practices (SMPs) and audits of small- and medium-sized entities (SMEs)
  - (g) Data Analytics/Digitisation of the Audit
  - (h) The Auditor of the Future
2. Consequently these topics have been captured in the 2017-18 AUASB Corporate Plan and Technical Workplan. The AUASB Technical Group has, in some cases in consultation with AUASB board

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*This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.*



members with a specific interest or subject matter expertise in a particular topic, developed Draft Strategic Project Outlines for four of these topics (items (a) through (d) above - refer to Agenda Items 8.1 – 8.4), with the Draft Strategic Project Outlines to be developed for consideration at the next AUASB meeting in November 2017.

3. Following a teleconference with AUASB members on 17 August 2017 to review priorities for the 2017-21 AUASB Corporate Plan the AUASB Technical Group has now developed a detailed Draft 2017-18 Technical Workplan. The Technical Workplan takes the priorities and KPI's from the AUASB Corporate Plan and articulates which AUASB Technical Group staff member will be responsible for each area and in which quarter of the 2017-18 the tasks are likely to occur (noting that many tasks in the Technical Workplan are ongoing responsibilities which occur through the year as opposed to specific periods). Once completed the 2017-18 AUASB Technical Workplan will be placed on the AUASB Website and be subject to a public consultation process, similar to which was undertaken for the recently completed 2017-21 AUASB Strategy.

### **Matters to Consider**

#### ***Part A – General***

1. AUASB members are asked to provide feedback to the AUASB Chair and AUASB Technical Group on the four Draft Strategic Project Outlines prepared to date and the Draft 2017-18 AUASB Technical Workplan.
2. These documents will then be updated and finalised prior to conducting a number of AUASB Agenda Consultation Forums in November 2017.

#### ***Part B – NZAuASB***

1. In all Strategic Project Outlines opportunities to work with the NZAuASB have been identified.
2. The 2017-18 AUASB Technical Workplan contains a number of tasks and projects that specifically address one of the AUASB's strategic priorities to 'Maintain harmonisation of auditing and assurance standards in Australia and New Zealand in accordance with relevant agreements and protocols'.

#### ***Part C – “Compelling Reasons” Assessment***

1. N/A

### **Material Presented**

Agenda Item 8	AUASB Board Meeting Summary Paper
Agenda Item 8.1	Strategic Project Outline - Reporting Framework and Charities
Agenda Item 8.2	Strategic Project Outline - Emerging External Reporting (EER)
Agenda Item 8.3	Strategic Project Outline - Coordination and cooperation with Regulators
Agenda Item 8.4	Strategic Project Outline – Auditor Reporting Implementation
Agenda Item 8.5	DRAFT AUASB Technical Work Program for 2017-18

## Strategic Project Outline

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Project Title: Reporting Framework and Charities  
Project ID: 2017  
Team member responsible: Mark Dowling  
AUASB Sponsors: Justin Reid

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### I. Background

1. The NFP sector is a significant part of the Australian economy comprising approximately 600,000 entities, including 55,000 charities registered with the ACNC. Whilst the sector is significant, the vast majority of these entities are small and unsophisticated, resulting in significant issues relating to maintaining compliance with a multitude of legislation and regulation. Given that the focus of this project is audit and assurance issues relating to proposed changes to the reporting framework for charities, this project is directed at ACNC entities only.
2. The AUASB has been engaged with the ACNC for over 5 years, dating back to the ACNC Taskforce and has been involved with a number of submissions in relation to the founding legislation as well as ongoing issues impacting audit and assurance matters. Projects have included the preparation of pro forma audit and review reports, transitional arrangements and compliance frameworks as well as an update to ASAE 2415 *Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation*. The ACNC has been a regular attendee at AUASB roundtables and research forums.
3. The AASB is working closely with the ACNC on reporting issues impacting on the charity sector. The AASB are currently working on a reporting framework project that is expected to provide input to the ACNC in relation to the current use of general and special purpose reporting frameworks with a view to expanding the number of reporting tiers available for smaller and less sophisticated charities (who should report and what should be reported). The AUASB are providing input to this project from the auditing and assurance perspective in relation to the framework (what level of assurance is appropriate and who should provide the assurance).
4. Research has recently shown that there is a range of audit or review requirements for charities across various regulators and legislation, which has led to significant red tape costs. Research has also shown that there are variations in the assurance provider credentials across these various regulations. A recent report published by the CA ANZ and the University of Adelaide on *The Demand for Registered Company Audit Services in Australia* identified difficulties in finding a local auditor, forcing entities to pay a premium for services as well as increasing workloads for registered company auditors, with a potential impact on audit quality.
5. Research has further recently shown that very few charities that have a choice of audit or review are currently selecting the review option. Also, the research shows there are a range of audit quality issues in the audit of charities. These findings are highlighted in upcoming research prepared by PhD student, Yitang (Jenny) Yang from the UNSW Business School - *Report Prepared for the AASB and AUASB on the Reporting Framework Choice and Auditor Characteristics and Value among Australian Large and Medium Charities* which has found:
  - very low levels (around 6%) of medium sized charities opt for a review, even though there is a regulatory choice for this group of charities; and
  - variability in audit quality, based on the size of the audit firm engaged.
6. The AUASB is keen to continue with this project as well as identifying additional opportunities to continue its work with key stakeholders to support the work of the charity and NFP sectors with a primary focus on charities. Work in this area is also expected to inform the upcoming SMP/SME project.

## **II. Purpose of Session**

7. To gather input from the AUASB on the project's objectives, goals and outcomes. To facilitate an informed discussion with the AUASB members leading to recommendations as to how to move forward in order to ultimately meet the project objectives

## **III. Scope**

8. Work with the AASB and the ACNC in relation to auditing and assurance impacts resulting from proposed changes to the reporting framework.
9. Work with NZAuASB to identify common areas of interest in relation to auditing and assurance issues impacting on the charity and NFP sectors. This is particularly important given the recent progress in New Zealand on reporting tiers for NFP entities as well as the reporting of service performance information.
10. Identify any other significant gaps impacting these entities in order to provide guidance and influence where required.

## **IV. Project objectives, public interest benefits, link to corporate strategy and short, medium and long-term goals:**

### **Project Objectives**

11. The objective of this project is to obtain an understanding of the audit and assurance impacts arising from the AASB charities framework project, with a view to supporting the ACNC objectives:
  - (i) maintain, protect and enhance public trust and confidence in the sector through increased accountability and transparency; and
  - (ii) promote the reduction of unnecessary regulatory obligations on the sector.

### **Public interest benefits**

12. The public interest benefits of this proposal align with the project objective of supporting the enhancement of public trust and confidence in the charity and NFP sectors.

### **Link to Corporate Strategy**

13. This project contributes to the following strategic objectives:
  - Demonstrating thought leadership and enhancing key international relationships.
  - Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach.
  - Develop guidance and education initiatives, or promote development by others, to enhance consistent application of auditing and assurance standards and guidance.



## Short, medium and long term goals

14. The table below has a summary of the short, medium and long term goals of this proposal:

<i>Short Term (current period)</i>	<ul style="list-style-type: none"><li>• Provide input to the AASB in relation to assurance elements of the NFP framework project.</li><li>• Obtain a comprehensive understanding of existing domestic and international guidance on assurance for charities and NFPs.</li><li>• Meet with key stakeholders to document issues impacting assurance in the charity and NFP sectors (including application issues impacting on audit quality).</li><li>• Gain an overview of the current assurance requirements (which charities need an audit or review as well as who is most appropriate to provide these services.)</li><li>• Identify gaps in existing guidance</li><li>• Update existing guidance where minimal changes are required.</li></ul>
<i>Medium term (2-3 years)</i>	<ul style="list-style-type: none"><li>• Continue to update existing guidance where applicable in relation to the charity and NFP sectors.</li><li>• Identify opportunities to provide new guidance and resources for emerging issues within these sectors.</li></ul>
<i>Long term (4-5 years)</i>	<ul style="list-style-type: none"><li>• Continue to engage and influence.</li></ul>

## V. How / Outreach:

15. The AUASB will liaise with the following key stakeholders:

- i) The ACNC
- ii) Auditors – feedback session with representatives a focus on firms involved in the charity/NFP sector.
- iii) Professional bodies (CA ANZ, CPA IPA)
- iv) The NZAuASB
- v) Other significant Commonwealth/State/Territory regulators of charities and NFP entities
- vi) Academic institutions such as the QUT Australian Centre for Philanthropy and Nonprofit Studies and the Centre for Social Impact (University of New South Wales, University of Western Australia and Swinburne University of Technology).

## VI. Outputs from project

- Provide input to the AASB on auditing and assurance matters relating to the NFP framework project.
- Updated guidance on the application of audit and assurance standards for the charity and NFP sector including the appropriate level of assurance as well as applicable guidance statements such as GS 019 *Auditing Fund Raising Revenue of Not-for-Profit Entities*.
- Provide input and influence to key stakeholders in relation to challenges impacting on auditing and assurance.

## **VII. Next Steps**

- Continue working with the AASB of the NFP framework project.
- Meet with the ACNC Director of Reporting and Red Tape Reduction to identify issues in relation to audit and assurance that are impacting on charities.

## **VIII. Liaison with other Standard Setters including Collaboration with AASB**

16. The AUASB is working directly with the AASB on the charity portion of the NFP framework.

## **IX. Education**

1. Education and guidance are key to the success of this project. In providing this, it is important to leverage off the existing work of the ACNC as well as the ongoing role of the professional bodies (CA ANZ, CPA, IPA) in this area. Consideration will also be given to using existing and alternative modes of communication such as webinars and podcasts.

## **X. Research**

17. The AUASB has currently identified some applicable research papers:
  - a. Yang Y., Simnett R and Carson E – *Report Prepared for the AASB and AUASB on the Reporting Framework Choice and Auditor Characteristics and Value among Australian Large and Medium Charities*, UNSW Australia Report
  - b. Cortis, N., Young, A., Powell, A., Reeve, R., Simnett, R., Ho, K., and Ramia, I. (2016) - *Australian Charities Report 2015*. Centre for Social Impact and Social Policy Research Centre, UNSW Australia.
  - c. EY – *Research into Commonwealth and Reporting Burdens on the Charity Sector*
  - d. Deloitte Access Economics – *Cutting Red Tape: Options to align state, territory and Commonwealth charity regulation*
  - e. University of Adelaide – *The Demand for Registered Company Audit Services in Australia*

## Strategic Project Outline

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Project Title: Emerging External Reporting (EER)  
Project ID: 2017  
Team member responsible: Marina Michaelides  
AUASB Sponsors: Jo Cain

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### I. Background

1. The AUASB has committed in their strategic plan to influence initiatives to develop assurance standards and guidance that meet user needs for external reporting beyond financial reporting which encapsulates emerging forms of external reporting (EER).
2. In February 2017 the AUASB made a submission to the IAASB on its discussion paper: [Supporting Credibility and Trust in Emerging Forms of External Reporting: The Key Challenges for Assurance Engagements](#). This submission was developed through direct engagement and consultation with a representative sample of stakeholders. These included directors, assurance providers, regulators, professional accounting bodies, education bodies, reporters, preparers and report users in both Melbourne and Sydney.
3. Assurance engagements on subject matter that fall under the auspices of EER are currently conducted under ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information, as well as other standards, such as AA1000 AccountAbility Assurance Standard (2008) (currently in revision for launch in late-2017). Where there are subject matter specific standards, e.g. ASAE 3410 Assurance Engagements on Green House Gas Statements, these are also applied.
4. There is an opportunity for the AUASB, potentially in partnership with other like-minded national standard setters, to respond to stakeholder feedback received in our most recent outreach by taking a leadership role with respect to assurance on EER ahead of international progress. A pro-active approach is proposed to address some of the key gaps and challenges identified by stakeholders with respect to the credibility and trust over EER.

### II. Purpose of Session

5. To facilitate an informed discussion with the AUASB members on the strategic project outline.

### III. Scope

6. EER can encapsulate a broad range of Reports, including:
  - Integrated Reports (IR), referencing the International Integrated Reporting Council (IIRC) <IR> Framework.
  - Sustainability Reports, often referencing the Global Reporting Initiative (GRI) G4 Standards.
  - Specific subject matter information in Reports, including:
    - National Greenhouse and Energy Reporting (NGER)
    - Environmental, social and governance (ESG) issues
    - Service Performance Information (SPI)
    - Climate Change Disclosures (CCD)

It should be noted that, whilst the IAASB discussion paper took a framework-neutral approach to EER, particular attention was paid to the frameworks promoted globally by the IIRC, the GRI, and others established in response to legislative or stock exchange requirements in different

jurisdictions. A combined approach to addressing credibility and trust in EER also featured, acknowledging the key role played by Audit and Risk Committees, management, internal and external audit.

7. Key challenges to the assurance practitioner with respect to EER include establishing suitable criteria, implementing a robust materiality process, maturity of reporting systems and availability of assurance practitioners with appropriate subject matter expertise, as identified in recent outreach on the IAASB EER Discussion Paper.

#### **IV. Project objectives, public interest benefits, link to corporate strategy and short, medium and long-term goals:**

##### **Project Objectives**

8. The project objectives are for the AUASB to understand and address:
  - a) the gap in credibility and trust in EER in Australian capital markets; and
  - b) the key assurance challenge(s) with EER, as identified with our stakeholders and included in the AUASB submission to the IAASB.

##### **Public interest benefits**

9. The public interest benefits of this proposal:
  - a) improve credibility and trust in EER in Australian capital markets through high quality standards and guidance on other assurance and related professional services; and
  - b) contribute to the enhanced quality and consistency of practice throughout the world, and strengthen public confidence in the audit and assurance profession.

##### **Link to Corporate Strategy:**

10. Strategic objective 5 in the AASB and AUASB Strategy 2017-2021: Influence initiatives to develop assurance standards and guidance that meet user needs for external reporting beyond financial reporting.

## Short, medium and long term goals

11. The table below has a summary of the short, medium and long term goals/outputs of this proposal:

<i>Short term (1 year)</i>	<ul style="list-style-type: none"> <li>• Further engage with assurance practitioners (through workshops, one-on-one interviews/meetings or surveys), who are undertaking different types of EER assurance engagements in practice to confirm the key challenges previously identified and further explore potential solutions, such as guidance and the most useful scope.</li> <li>• Further environment scanning, analysis and knowledge building on EER and related assurance experience and initiatives in other jurisdictions, in particular New Zealand, South Africa, United Kingdom, Malaysia and the Netherlands. Through these processes, identify potential partners from other jurisdictions working in this area.</li> <li>• In particular, work with the NZAuASB on how we may collaborate on a joint project to meet the strategic objectives of both Boards.</li> <li>• Engage more closely with the IAASB on the outcomes from the EER Discussion Paper and contribute to any resulting initiatives where this adds value</li> <li>• Identify relevant academic research in this area and consider future needs through engagement with universities and other education providers.</li> <li>• Attend BLRF and IIRC meetings throughout the period.</li> <li>• Identify and scope potential individual projects on one or more of the key challenges raised in the EER submission, such as scoping engagements, future-oriented information and materiality.</li> </ul>
<i>Medium term (2-3 years)</i>	<ul style="list-style-type: none"> <li>• Undertake stakeholder engagement to share AUASB's "thought leadership" on EER. This could include workshops, presentations, podcasts and other outreach.</li> <li>• Participate actively in the IAASB's innovation working group taskforce for EER.</li> <li>• Continue to monitor international progress on EER, including jurisdiction-specific milestones, drawing on any partnerships established.</li> </ul>
<i>Long term (4-5 years)</i>	<ul style="list-style-type: none"> <li>• Continue to play leadership role internationally in EER assurance.</li> <li>• Review the outcomes of short and medium term goals to determine where most value can be added.</li> </ul>

## V. How / Outreach:

12. Further outreach will be undertaken with a representative sample of stakeholders:
- a) Assurance providers involved in EER assurance
  - b) Directors and audit committee members: via the AICD
  - c) Professional accounting bodies: CAANZ, CPA Australia
  - d) Education bodies: UNSW, Deakin, Sydney, other?
  - e) Reporters: via the Business Reporting Leaders Forum (BRLF), plus reporters (e.g. Australian leaders in IR)
  - f) Report users: Shareholders, superannuation funds, investors: ACSI, Regnan.

13. Aims/outputs of outreach:
- identify the types of assurance engagements (e.g. <IR>, GRI, CCD) being undertaken and issues being encountered in practice to clearly understand the gaps/ challenges for assurance that may need to be addressed in the public interest.
  - provide feedback and assistance on how the AUASB can be proactive internationally with the IAASB.
  - revisit the key challenges identified in the submission to the IAASB EER Discussion Paper to confirm that these are still relevant and confirm the order of key priorities.
  - tap into current research and thinking by academics in the EER field and leverage off this where appropriate.

## **VI. Outputs from project**

14. Refer table in paragraph 11.

## **VII. Next Steps**

15. TBD – aim of AUASB session.

## **VIII. Liaison with other Standard Setters including Collaboration with AASB**

16. Further environment scanning, analysis and knowledge building on EER and related assurance experience and initiatives in other jurisdictions, in particular New Zealand, South Africa, United Kingdom, Malaysia and the Netherlands. Through these processes, identify potential partners from other jurisdictions working in this area.
17. In particular, work with the NZAuASB on how we may collaborate on a joint project to meet the strategic objectives of both Boards.
18. Determine how we work with the AASB to ensure that both Boards work towards achieving strategic objective 5 which are essentially aligned.

## **IX. Education**

19. CPA Australia is currently developing a module on EER assurance for external assurance practitioner certification. The AUASB is playing an active role in this process.
20. Deakin and UNSW currently offer an elective courses on <IR> and Value Creation in their accounting degree programs. These courses contain assurance and credibility enhancement modules.
21. Keep abreast of other related education initiatives in the pipeline through relationships with key education providers.

## **X. Research to date**

22. The following applicable research papers have already been identified:
- a) The University of New South Wales – *Combined Assurance as a New Credibility Enhancement Technique*.
  - b) Stanford University, University of Auckland, University of Pretoria – *The Economic Consequences Associated with Integrated Report Quality: Early Evidence from a Mandatory Setting*.
  - c) The University of New South Wales – *Does Integrated Reporting Matter to Capital Markets?*
  - d) CPA Australia – *An Exploration of the Information Needs of Selected Stakeholders of Integrated Reporting*.

## Strategic Project Outline

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Project Title: Engagement with Regulators  
Project ID:  
Team member responsible: Rene Herman  
AUASB Sponsors: Robin Low

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### I. Background

1. The AUASB has committed in their strategic plan to promote initiatives that enhance audit and assurance consistency and quality.
2. The quality of financial reports is critical to confident and informed markets and investors. The objective of the independent audit is to provide confidence in the quality of financial reports<sup>#</sup>. Improving audit quality and the consistency of audit execution and auditor reporting is essential to continued confidence in the independent assurance provided by auditors.
3. Inspection findings by audit regulatory bodies continue to highlight issues with audit quality. For example as noted by ASIC in their *audit inspection program report for 2015-16*. The AUASB recognises that they have a role to play in promoting and supporting audit quality by developing and maintaining quality auditing standards and appropriate guidance.
4. The AUASB is alert to a level of inconsistency of assurance reporting by issuers of prescribed reports. These prescribed reports may be legally binding (cannot change, must follow word for word) or just preferred; and the prescribed wording may be on the entire report or on the opinion only. Such inconsistencies may stem from a lack of understanding of issuers as to the types of assurance and this may lead to user expectation gaps that in turn results in diminishing audit quality.
5. APRA requires APRA regulated industry entities to have additional assurance over and above the financial report, on annual returns and controls. APRA prescribes the level of issuance and the format of reporting. It is critical that the AUASB remains involved in the wording of the prescribed APRA assurance report requirements so as to ensure the said requirements meet AUASB standards and accordingly can fulfil user needs.

### II. Purpose of Session

6. To facilitate an informed discussion with the AUASB members leading to recommendations as to how to move forward in order to ultimately meet the project objectives.

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<sup>#</sup> This paper also covers other assurance engagements

### III. Scope

7. The following regulators fall inside the scope of this project proposal:

<i>Regulator</i>	<i>Context</i>	<i>Why</i>
ASIC	Audit inspection findings	Assist with improving use of standards and improvement of audit quality.
APRA	Prudential regulator (financial institutions) – prescribed assurance reports	To facilitate appropriate prescribed assurance reports that meet user needs and meet AUASB standards.
ATO	Regulator of SMSFs	To assist with the audit quality of SMSF audits and to facilitate appropriate prescribed assurance reports that meet user needs and meet AUASB standards.
CER	Prescribed assurance reports	To facilitate appropriate prescribed assurance reports that meet user needs and meet AUASB standards.

8. The following regulators fall outside the scope of this project proposal:

<i>Regulator</i>	<i>Why</i>
ACNC	To be dealt with under a separate strategic project.
ACCC	No direct assurance needs/impacts identified.
FIRB	No direct assurance needs/impacts identified.
ASX	No direct assurance needs/impacts identified.

### IV. Project objectives, public interest benefits, link to corporate strategy and short, medium and long-term goals:

#### Project Objectives

9. The project objectives are for the AUASB to better understand:
- audit and assurance issues identified through inspection reports impacting negatively on audit quality, in order to identify how the AUASB, as a stakeholder in the financial reporting supply chain, can assist in the improvement of audit quality; and
  - audit and assurance needs and requirements of government agencies, so that appropriate levels of assurance, suitable to user needs, are provided with a consistent application of the auditing standards.

#### Public interest benefits

10. The public interest benefits of this proposal are to:
- promote and improve audit quality, the IAASBs Audit Quality Framework, recognises the importance that key interactions with stakeholders has on audit quality – regulators and auditors are identified as being stakeholders within the financial reporting supply chain;
  - build trust and credibility as “the” audit and assurance standard setter; and
  - address the following issues:
    - Performance Gap: either deficient standards or deficient performance.



- Prescribed reports: do not always meet AUASB standards and diminish audit quality and credibility

### Link to Corporate Strategy:

11. Audit quality contributes to stakeholder confidence in the Australian economy including its capital markets and trust in auditing an assurance. Engagement with the regulators meets the following strategic objectives:
  - a) Attain significant levels of key stakeholder engagement through collaboration, partnership and outreach; and
  - b) Develop guidance and education initiatives, or promote development by others, to enhance consistent application of auditing and assurance standards and guidance

### Short, medium and long term goals

12. The table below summarises the short, medium and long term goals/outputs of this proposal:

<i>Short Term (current period)</i>	<ul style="list-style-type: none"> <li>• Attendance at ASIC quarterly liaison meetings and ASIC audit committee forum</li> <li>• Early engagement with ASIC on any AUASB submissions (for example ED ISA 315)</li> <li>• Discussions with ASIC on inspection report – more detailed understanding</li> <li>• Identify and scope possible project on one area of concern from ASIC inspection findings. Examples may be: use of experts, use of internal audit</li> <li>• Understanding from firms – use and impact of other regulators</li> <li>• Thought leadership piece - perhaps link to NZ project Guidance for prescribers of assurance requirements</li> </ul>
<i>Medium term (2-3 years)</i>	<ul style="list-style-type: none"> <li>• Enquiry into other regulators – contact persons for assurance matters – setting up meetings</li> <li>• Continue to identify and scope possible projects on area of concern from ASIC inspection findings.</li> <li>• Identify and scope possible project on one area of concern from other regulators. Example may be: SMSFs</li> <li>• Develop listing of prescribed reports and working with regulators to re-write prescribed reports where appropriate to be compliant with AUASB standards</li> </ul>
<i>Long term (4-5 years)</i>	<ul style="list-style-type: none"> <li>• Regulators to liaise and discuss inspection matters with the AUASB on a real-time file review basis (confidential basis)</li> <li>• Government issues “mandate” on any assurance / audit to come through AUASB – all prescribed reports</li> </ul>

### V. How / Outreach:

13. The AUASB will need to workshop with the following are groups of stakeholders:
  - a) ASIC/other regulators
  - b) Professional institutes (CAANZ, CPA)
  - c) PAG: Big 4, mid-tier, CAANZ, CPA, Preparer

14. Aims/outputs of workshops:
  - identify the first thought leadership piece / AUASB assistance piece;
  - identify the first “inspection report” area that we can provide guidance on; and
  - collation of prescribed reports

## **VI. Outputs from project**

15. Refer table in paragraph 12.

## **VII. Next Steps**

16. TBD – aim of AUASB session

## **VIII. Liaison with other Standard Setters including Collaboration with AASB**

17. Build knowledge of what other jurisdictions are doing in terms of standard setters working with regulators: SA, NZ, Canada, UK, and Germany.
18. Determine involvement of AASB.

## **IX. Education**

19. TBD

## **X. Research**

20. The AUASB has currently identified several applicable research papers:
  - a. University of Adelaide – *The Demand for Registered Company Auditor Services in Australia*
  - b. FRC – *Reporting Framework Project*
  - c. *The Effect of National Inspection Regimes on Audit Quality*
  - d. Accounting and Business Research - *Different approaches to corporate reporting regulation: How jurisdictions differ and why*

## Strategic Project Outline

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Project Title: Auditor Reporting Implementation Review Project  
Project ID: 2017  
Team member responsible: Anne Waters  
AUASB Sponsor: Carolyn Ralph

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### I. Background

1. The new auditor reporting standards are now in effect, and the changes to the auditor's report are significant, especially for auditors of listed entities who now communicate key audit matters (KAMs).
2. The objectives and intended benefits of the new auditor reporting standards are:
  - a) Increased user confidence in audit reports and financial statements;
  - b) Increased communication and transparency between auditors and investors, as well as those charged with governance, about the audit that was conducted;
  - c) Increased attention by management and financial statement preparers to disclosures referencing the auditor's report; and
  - d) Increased auditor's focus on going concern matters, including disclosures in the financial statements and to add more transparency in the auditor's report about the auditor's work.
3. It is now appropriate to commence assessing the Australian implementation experience in order to support consistency of application, and with a longer term objective to assess whether the intended benefits of the new auditor reporting standards have been achieved.

### II. Purpose of Session

4. To gather input from the AUASB on the project's objectives, goals and outcomes.

### III. Scope

5. The Australian experience in implementing the new auditor reporting standards (including ASA 700, 701, 705, 706, 720 and 570).

### IV. Project objectives, public interest benefits, link to corporate strategy and short, medium and long-term goals:

#### Project Objectives

6. The objective of this project is to:  
*Shorter term (2017)*
7. To support and understand the experience of key stakeholders in the first year of implementation, in order to:
  - a. issue guidance as required.

- b. demonstrate thought leadership by issuing a report summarising key data, observations / insights, and feedback from Australian stakeholders.

*Longer term (2018-2021)*

- 8. Understand the experience in years 2 – 3 in order to:
  - a. continue to issue guidance as considered necessary to support consistency of application.
  - b. demonstrate thought leadership by issuing a report summarising key data, observations / insights, and feedback from stakeholders.
  - c. understand the cost vs fees implications to practitioners, versus the perceived value to users.
- 9. Based on the information and evidence gathered:
  - a. assess whether the intended benefits of the new auditor's report have been achieved.
  - b. understand our stakeholders views on any proposed future amendments to auditor reporting standards in order to;
    - achieve greater consistency in application
    - further enhance the value of the auditor's report
    - increase the information included in the audit report ie. materiality, findings for KAMs etc.
    - expand their application ie. KAMs to public interest entities, to other assurance engagements, review engagements
  - c. actively influence the IAASB in the future direction of international auditor reporting standards.

**Public interest benefits**

- 10. The changes to the auditor's report were made in the public interest. This project is to assess whether the intended benefits of these changes have been achieved and to provide evidence to form a view on any future proposed amendments to the auditor reporting standards.

**Link to Corporate Strategy**

- 11. This project contributes to the following strategic objectives:
  - 1. Develop, issue and maintain high quality Australian auditing and assurance standards that meet the needs of report users. Use IAASB Standards – where they exist, modified as necessary – or develop Australian specific standards and guidance.
  - 3. Actively influence international auditing and assurance standards and guidance by demonstrating thought leadership and enhancing key international relationships.
  - 4. Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach.

## Short, medium and long term goals

<i>Short Term (current period)</i>	<ul style="list-style-type: none"> <li>• Gather feedback from key stakeholders (auditors, CFOs/TCWG, Investors, regulators) (refer point 12 below)</li> <li>• Gather data on, and analyse audit reports issued, in order to identify observations and insights (refer point 13 below)</li> <li>• Issue FAQs or other guidance as needed</li> <li>• Issue a report summarising the key observations and experience from the first year of implementation</li> <li>• Provide feedback to other standard setters</li> </ul>
<i>Medium term (2-3 years)</i>	<ul style="list-style-type: none"> <li>• Gather feedback from key stakeholders (auditors, CFOs/TCWG, Investors, regulators) (refer point 12 below)</li> <li>• Gather data on, and analyse audit reports issued, in order to identify observations and insights (refer point 13 below)</li> <li>• Issue FAQs or other guidance as needed</li> <li>• Issue a report summarising the key observations and experience from the second year of implementation</li> <li>• Form a view on whether the intended benefit of the new auditor's report have been achieved</li> </ul>
<i>Long term (4-5 years)</i>	<ul style="list-style-type: none"> <li>• Form a view on any proposed further amendments to the standards</li> <li>• Provide input into and influence the IAASB's post implementation review based on the evidence gathered on the Australian experience</li> </ul>

## V. How / Outreach:

12. The AUASB will conduct outreach activities in 2017, 2018 and 2019 as follows:

- a. Gather feedback from key stakeholders (refer below) about the benefits, issues / challenges in the first year of implementation and where further guidance is required.
  - i. Auditors – feedback session with representatives from big, medium and small practitioners
  - ii. Preparers –targeted interviews
  - iii. Investors –targeted interviews
  - iv. Regulators – ASIC's observations on auditor's reports reviewed as part of their auditor surveillance
- b. We will also consider the use of surveys.

13. Working with Professor Elizabeth Carson from the University of New South Wales on the review and analysis of auditor's reports, and gathering of key data, in order to gain insights and observations.

14. AUASB Senior Project Manager to assist the NZAuASB with their joint project with the FMA on the New Zealand first year experience, with the objective to leverage off this project and understand key observations.
15. Liaise with other standard setters in understanding the international experience.

## **VI. Outputs from project**

16. Issuing of guidance as considered necessary.
17. The AUASB to have input to and / or author a report on the Australian first year and second year experience, to be issued in December 2017 and 2018.
18. Evidence on whether the objectives of the auditor reporting changes have been achieved.
19. Evidence to support any proposed/potential future expansion of the current audit reporting requirements.
20. Provide feedback to, and influence the results of the IAASB's post implementation review.

## **VII. Next Steps**

21. The next steps are to:
  - a. Work with academics from University of New South Wales in gathering and analysing key data from 2016/2017 reporting seasons.
  - b. Reach out and seek feedback from key stakeholders:
    - i. AUASB / UNNSW Research Forum
    - ii. Auditors / preparers / TCWG – roundtables in major cities, and targeted interviews
    - iii. Investors / analysts – targeted interviews, reach out to ACSI and Shareholders Association
    - iv. ASIC – discuss observations from their surveillance program

## **VIII. Liaison with other Standard Setters including Collaboration with AASB**

22. AUASB Senior Project Manager will work with NZAuASB staff with their joint project with the FMA, and share key observations on the Australian experience.
23. We will continue to liaise with other standard setters, including Canada, in order to gain insights and share experiences.
24. We will continue to consult with the AASB on technical matters as considered necessary.

## **IX. Research**

25. This project involves working with Professor Elizabeth Carson and leveraging off her review and analysis of auditor's reports, in order to gain insights and observations.

## **X. Education**

26. This project includes issuing of guidance to educate key stakeholders. We will also liaise with the professional bodies to identify educative opportunities.

Project Strategies/ Initiatives		Resp.	Status	2017		2018	
				Qtr 3	Qtr 4	Qtr 1	Qtr 2
A. Work Program Activities							
1. Issue Australian Auditing and Assurance Standards							
1.1.	Issue all IAASB related Australian equivalent Exposure Drafts on a timely basis (within 3 months of PIOB clearance or within 1 month of AUASB approval, as appropriate).	MZ					✓
1.2.	Develop and issue Australian Auditing and Assurance Standards following the release of their equivalent ISA, ensuring all Australian legislative and regulatory requirements are considered, including changes required via application of the ‘compelling reason’ test.	MZ					
	1.2.1. ASA 540 Auditing Accounting Estimates and Related Disclosures	RH				✓	✓
1.3.	Coordinate and develop the AUASB’s response to existing and planned IAASB exposure drafts due for release	MZ					
	1.3.1. ISA 315	AW			✓	✓	
	1.3.2. ISQC 1	RH				✓	✓
	1.3.3. ISA 220	RH				✓	✓
	1.3.4. ISA 600	AW					✓
1.4.	Develop high quality responses to other IAASB pronouncements or invitations to comment by the due date as they are released.	MZ		✓	✓	✓	✓
1.5.	Conduct post-implementation reviews of IAASB equivalent issued AUASB Standards, where deemed necessary.	MZ					✓

Project Strategies/ Initiatives		Resp.	Status	2017		2018	
				Qtr 3	Qtr 4	Qtr 1	Qtr 2
2. <i>Develop, update and maintain Australian specific Standards and/or Guidance Statements</i>							
2.1.	Develop and issue Australian specific Standards within 1 month of AUASB approval, in accordance with AUASB legislative drafting and registration requirements.	MZ					
	2.1.1. ASAE 3500 <i>Performance Engagements</i>	MM		✓	✓		
2.2.	Review and revise out of date Guidance Statements	MZ					
	2.2.1. GS 010 <i>Responding to Questions at an Annual General Meeting</i>	AW			✓	✓	
	2.2.2. GS 019 <i>Auditing Fundraising Revenue of Not-for-Profit Entities</i>	MD			✓	✓	
2.3.	Review full suite of AUASB pronouncements to determine necessity and timing of other required updates.	MD		✓	✓		
2.4.	Conduct post-implementation reviews of Australian specific AUASB Standards, where deemed necessary.	MZ					✓
3. <i>Monitor the Assurance Environment, considering the implications for Australian auditing and assurance standards and guidance and responding as appropriate.</i>							
3.1.	Conduct yearly AUASB Agenda Consultation Forums in various locations, either face to face or electronically and update AUASB Workplan as required based on relevant feedback.	RS/MZ			✓		
3.2.	Hold quarterly meetings with CPA Australia, and CAANZ professional accounting bodies to discuss trends in assurance environment and identify impact for AUASB Agenda and Workplan.	RS/MZ		✓	✓	✓	✓



Project Strategies/ Initiatives		Resp.	Status	2017		2018	
				Qtr 3	Qtr 4	Qtr 1	Qtr 2
<b>3.3.</b>	Ensure AUASB attendance and presentations at a number of research events	RS/MZ					
	<b>3.3.1.</b> AFAANZ Conference and co-ordinating with the AFAANZ Auditing and Assurance Special Interest Group	RS					✓
	<b>3.3.2.</b> AUASB / UNSW Audit Research Roundtable in October 2017	RS/MZ		✓	✓		
<b>3.4.</b>	Develop and implement AUASB Research Strategy	RS/MZ			✓	✓	✓
<b>3.5.</b>	Assess and respond to implementation issues (for 2017-18, those identified in the June 2017 ASIC Inspection Report) in connection with the strategic project on 'Coordination and cooperation with Regulators'.	RH			✓	✓	✓
<b>4. Build, maintain and enhance key international relationships around key focus areas with both global (e.g. IAASB, IFAC, IIRC) and national standard setters and professional bodies (e.g. FRC, PCAOB, CPAC, IRBA).</b>							
<b>4.1.</b>	AUASB to be represented at all IAASB meetings.	RS/MZ		✓	✓	✓	✓
<b>4.2.</b>	Arrange for AUASB review of relevant IAASB board papers on a timely basis and share feedback on key matters with regional IAASB members before each IAASB meeting.	MZ		✓	✓	✓	✓
<b>4.3.</b>	Attend and present relevant topics at regional and global IAASB NSS meetings	RS/MZ					✓
<b>4.4.</b>	Increase our awareness of and influence with IFAC SMP Committee activity given the high level of SMP/SME exposure in Australia and NZ	MD			✓	✓	
<b>4.5.</b>	Attend and contribute to other IAASB or International Standard Setting forums as appropriate	MZ		✓	✓	✓	✓

Project Strategies/ Initiatives		Resp.	Status	2017		2018	
				Qtr 3	Qtr 4	Qtr 1	Qtr 2
<b>4.6.</b>	Review and contribute as appropriate to other global initiatives, such as IIRC and GRI, on assurance issues.	RS/MM		✓	✓	✓	✓
<b>5. Maintain harmonisation of auditing and assurance standards in Australia and New Zealand in accordance with relevant agreements and protocols.</b>							
<b>5.1.</b>	AUASB Chair (or alternate AUASB Staff member) to attend all NZAuASB meetings.	RS/MZ		✓	✓	✓	✓
<b>5.2.</b>	Ensure standards and guidance (in 2017-18, ASA 540) are issued in accordance with AU/NZ harmonisation requirements.	MZ		✓	✓	✓	✓
<b>5.3.</b>	Contribute to and work in parallel on a number of NZAuASB projects						
	<b>5.3.1.</b> Auditor Reporting FAQs	AW		✓	✓	✓	✓
	<b>5.3.2.</b> NZ FMA Report on Auditor Reporting	AW		✓	✓		
	<b>5.3.3.</b> Audit of Service Performance Information standard	RS/MZ		✓	✓	✓	✓
<b>5.4.</b>	Work collaboratively with NZAuASB Technical Staff to ensure co-operation and co-ordination between the AUASB and NZAuASB's activities (e.g. joint research programs and joint contributions on key focus areas, such as Assurance requirements for NFP's and Charities).						
	<b>5.4.1.</b> Assurance requirements for NFP's and Charities	MD		✓	✓		

Project Strategies/ Initiatives		Resp.	Status	2017		2018	
				Qtr 3	Qtr 4	Qtr 1	Qtr 2
	5.4.2. Guidance for prescribers of assurance engagements	RH			✓	✓	
<b>6. Complete a number of strategic projects addressing current areas of auditing and assurance thought leadership and emerging issues, in particular the areas of external reporting beyond financial reporting (e.g. EER) and the impact of changing technologies (e.g. Data Analytics).</b>							
6.1.	Scope and implement strategic thought leadership projects in the following areas:						
	6.1.1. Auditor Reporting Implementation	AW		✓	✓	✓	✓
	6.1.2. Coordination and cooperation with Regulators	RH		✓	✓	✓	✓
	6.1.3. Assurance over Emerging Forms of External Reporting (EER)	MM		✓	✓	✓	✓
	6.1.4. Auditing and Assurance issues in the Charities and NFP sector	MD		✓	✓	✓	✓
	6.1.5. Public Sector Auditing and Assurance Issues	MZ			✓	✓	✓
	6.1.6. Consideration of matters related to small and medium practices (SMPs) and audits of small- and medium-sized entities (SMEs)	MZ/MD			✓	✓	✓
	6.1.7. Data Analytics/Digitisation of the Audit	MZ			✓	✓	✓
	6.1.8. The Auditor of the Future	TBD				✓ tbc	✓ tbc
6.2.	With the AASB, update the 'Alignment of Reporting and Auditing Frameworks' review completed by the University of Adelaide and CA ANZ to ensure it reflects	MD		✓	✓	✓	✓

Project Strategies/ Initiatives		Resp.	Status	2017		2018	
				Qtr 3	Qtr 4	Qtr 1	Qtr 2
	current audit and assurance requirements, and consult with appropriate policy makers and regulators.						
<b>6.3.</b>	Develop and maintain contact with other key national standard setters (e.g. Canada, France, Germany, Netherlands, United Kingdom, United States and South Africa) and identify opportunities to collaborate on key international auditing and assurance focus areas.	MZ		✓	✓	✓	✓
<b>6.4.</b>	Monitor key international regulator developments (including IOSCO, PCAOB and IFIAR) and consider impact for the local auditing and assurance environment.	RH		✓	✓	✓	✓
<b>6.5.</b>	Work with relevant local and international stakeholders to influence and support emerging forms of assurance (e.g. IIRC).	MM		✓	✓	✓	✓
<b>B. Stakeholder Activities</b>							
<b>7. Achieve a high level of stakeholder satisfaction through increased engagement (i.e. events and publications) that demonstrate the AUASB has a thorough awareness of ideas and concerns of Australian stakeholders.</b>							
<b>7.1.</b>	Hold quarterly meetings with key stakeholders and ensure regular contact with other stakeholders as required to: <ul style="list-style-type: none"> <li>gather timely and relevant feedback on AUASB activities; and</li> <li>ensure the AUASB Workplan is responsive to stakeholder needs.</li> </ul>						
	<b>7.1.1.</b> Hold quarterly meetings with key stakeholders (CPA Australia, CA ANZ, APESB, ASIC)	RS/MZ		✓	✓	✓	✓
	<b>7.1.2.</b> Ensure regular contact with other stakeholders (ACAG, ACNC, CER, APRA, AICD & IPA)	MZ			✓		✓
<b>7.2.</b>	Attend and present at regular professional and regulatory forums (e.g. ASIC Standing Committee,	RS/MZ		✓	✓	✓	✓

Project Strategies/ Initiatives		Resp.	Status	2017		2018	
				Qtr 3	Qtr 4	Qtr 1	Qtr 2
	Emerging Accounting and Auditing, Issues Discussion Group, BLRF etc.).						
<b>7.3.</b>	AUASB Board members or staff to present at a number of auditing or assurance related events/conferences (e.g. CA ANZ Audit Conference).	RS/MZ		✓	✓	✓	✓
<b>7.4.</b>	Author or contribute to multiple articles on major auditing and assurance developments for CPA Australia and CA ANZ professional bulletins and other publication outlets.	Various		✓	✓	✓	✓
<b>7.5.</b>	Complete quarterly reports for the FRC and obtain positive feedback from FRC members on AUASB activities.	RS/MZ		✓	✓	✓	✓
<b>7.6.</b>	Develop and distribute a regular AUASB Update Newsletter (at least quarterly).	MZ/SB		✓	✓	✓	✓
<b>7.7.</b>	Conduct an AUASB Stakeholder satisfaction survey in the second half of 2017-18.	MZ/SB				✓	✓
<b>7.8.</b>	Create and maintain details of AUASB stakeholders in the new AASB/AUASB Stakeholder Database.	MZ/SB			✓	✓	✓
<b>7.9.</b>	Contribute to the design and development of the new AASB/AUASB website.	MZ/SB				✓	✓
<b>7.10.</b>	In conjunction with the AASB/AUASB Communications Manager, implement initiatives to monitor and grow stakeholder engagement, measured via increased media mentions, social media activity and level of participation at AUASB events.	MZ/SB		✓	✓	✓	✓
<b>7.11.</b>	Make all AUASB meeting board papers available on the AUASB website a week in advance and highlights/podcast available within 2 working days after each meeting.	All Staff		✓	✓	✓	✓
<b>8. Conduct awareness initiatives, such as webinars and presentations for new major Standards issued, and promote the development of education initiatives by others (for example professional bodies, regulators, accounting firms and tertiary institutions) by providing, technical input to their initiatives and co-presenting at their education sessions.</b>							

Project Strategies/ Initiatives		Resp.	Status	2017		2018	
				Qtr 3	Qtr 4	Qtr 1	Qtr 2
8.1.	Record and release AUASB podcasts and/or webcasts on all major audit and assurance pronouncements (e.g. ASA 540, Auditor Reporting).	MZ/SB		✓	✓	✓	✓
8.2.	Engage with the CA ANZ and CPA Australia to support the currency and appropriateness of auditing and assurance professional program course materials.	MZ			✓	✓	✓
8.3.	AUASB Board members or staff to present at a number of auditing or assurance related events/conferences (e.g. CA ANZ Audit Conference).	RS/MZ		✓	✓	✓	✓
8.4.	Author or contribute to multiple articles on major auditing and assurance developments for CPA Australia and CA ANZ professional bulletins.	Various		✓	✓	✓	✓
8.5.	Identify opportunities to present guest lectures or be represented on course advisory panels for auditing and assurance topics at major tertiary institutions.	RS/MZ		✓	✓	✓	✓
8.6.	Partner with respected auditing and assurance academics on AUASB strategic projects and research activities, for example on Auditor Reporting implementation.	RS		✓	✓	✓	✓
<b>9. Analyse regulator inspection findings to identify AUASB actions that help improve audit quality and the consistency of audit execution, predominately through the development of new publications (such as AUASB Bulletins and frequently asked questions ('FAQs')) that facilitate the consistent application of auditing and assurance standards.</b>							
9.1.	Increased and timelier engagement with ASIC and other regulators responsible for audit and assurance inspections.	RS/RH		✓	✓	✓	✓
9.2.	Assess and respond to implementation issues (for 2017-18, those identified in the June 2017 ASIC Inspection Report) and identify opportunities to create additional AUASB guidance to address findings.	MZ/RH			✓	✓	✓
9.3.	Hold quarterly meetings with ASIC and meet at least annually with other regulators (APRA, CER) to discuss audit inspection developments and identify opportunities for AUASB staff involvement.	RS/RH		✓	✓	✓	✓

Project Strategies/ Initiatives		Resp.	Status	2017		2018	
				Qtr 3	Qtr 4	Qtr 1	Qtr 2
9.4.	In conjunction with the NZAuASB, issue new and revised Auditor Reporting FAQs based on stakeholder feedback and issues noted by AUASB staff.	AW		✓	✓	✓	✓
9.5.	Develop and issue AUASB Bulletins to provide guidance to Stakeholders as required on AUASB Pronouncements and topical/emerging auditing and assurance issues and in conjunction with the release of all major AUASB standards and guidance statements.	MZ/SB		✓	✓	✓	✓
9.6.	Monitor global audit inspection developments and trends and consider impact for Australian auditing and assurance environment.	RH		✓	✓	✓	✓

**Key:**

●	Outstanding/incomplete/major delays
●	Partially completed/in progress/minor delays
●	In progress / substantially completed / on track
●	Yet to commence



# AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.**      **9.0**

**Meeting Date:**                      12 September 2017

**Subject:**                              Finalisation of ASA 250 and ASA 2017-2

**Date Prepared:**                      5 September 2017

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☐ **Action Required**

☒ **For Information Purposes Only**

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## Agenda Item Objectives

To provide the AUASB, for their information, with the final amendments made to the ASAs, as a result of the ASA 250 *Consideration of Laws and Regulations in the Audit of a Financial Report* project.

## Background

1. At the 30 May 2017 AUASB meeting the board voted to issue the standards ASA 250 and ASA 2017-2 with an application date of 1 January 2018 with early adoption permitted, subject to internal quality assurance processes being completed and final review by the Chair.
2. The technical group's quality control procedures identified additional minor amendments to the standards relating mostly to internal referencing inconsistencies or terminology change (for example Chartered Accountants Australia and New Zealand).
3. The AUASB technical group have included these changes as additional conforming amendments and are highlighted in **yellow** in agenda items 9(a) & 9(b).
4. These additional amendments were not included in ED ASA 2016-1, and it is the view of the AUASB technical group and approved by the Chair, that they are insignificant and editorial in nature, and accordingly it is not necessary to publicly expose.

## Matters to Consider

### ***Part A – General***

5. Content provided for AUASB information only, no further action is requested of the board.

### ***Part B – NZAuASB***

1. The NZAuASB released their compiled standards in November 2016.

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*This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.*



**AUASB Technical Group Recommendation**

No action requested.

**Material Presented**

Agenda Item 9(a)	Final version of ASA 2017-2 with changes highlighted
Agenda Item 9(b)	Final version of NOCLAR Conforming Amendments to review and assurance standards with changes highlighted

**ASA 2017-2**  
(May 2017)

# **Auditing Standard ASA 2017-2** *Amendments to Australian Auditing Standards*

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



**Australian Government**

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**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](http://www.auasb.gov.au)

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CONFORMITY WITH INTERNATIONAL STANDARDS ON AUDITING

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## PREFACE

### Reasons for Issuing ASA 2017-2

The AUASB issues Auditing Standard ASA 2017-2 *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, 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*.

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/or application & other explanatory material of the following Auditing Standards:

ASQC 1	<i>Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements</i> (27 October 2009)
ASA 210	<i>Agreeing the Terms of Audit Engagements</i> (27 October 2009)
ASA 220	<i>Quality Control for an Audit of a Financial Report and Other Historical Information</i> (27 October 2009)
ASA 240	<i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i> (27 October 2009)
ASA 260	<i>Communication with Those Charged with Governance</i> (27 October 2009)
ASA 450	<i>Evaluation of Misstatements Identified During the Audit</i> (27 October 2009)
ASA 500	<i>Audit Evidence</i> (27 October 2009)

The amendments arise from changes made by the International Auditing and Assurance Standards Board (IAASB) to ISA 250. Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the IAASB for the revision and enhancement of the International Standards on Auditing and to make appropriate consequential amendments to the Australian Auditing Standards.

**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 2017-2 *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: 30 May 2017

R Simnett  
Chair - AUASB

## **Conformity with International Standards on Auditing**

This Auditing Standard has been made for Australian legislative purposes. It contains a series of proposed miscellaneous amendments to various Australian Auditing Standards (as shown) arising from the proposed revision of the existing ASA 250. These proposed amendments, in the main, reflect similar amendments made to the equivalent International Standards on Auditing (ISAs).

Compliance with the amended Australian Auditing Standards enables compliance with the amended ISAs.

## **AUDITING STANDARD ASA 2017-2**

### ***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 2018 with early adoption permitted.

#### **Introduction**

##### **Scope of this Auditing Standard**

4. This Auditing Standard makes amendments to the Australian Auditing Standards. The amendments arise from consequential changes arising from ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* resulting from enhancements aimed at addressing laws and regulations.

#### **Objective**

5. The objective of this Auditing Standard is to make amendments to the following Auditing Standards:
  - (a) ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* (27 October 2009)
  - (b) ASA 210 *Agreeing the Terms of Audit Engagements* (27 October 2009)
  - (c) ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Information* (27 October 2009)
  - (d) ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* (27 October 2009)
  - (e) ASA 260 *Communication with Those Charged with Governance* (27 October 2009)
  - (f) ASA 450 *Evaluation of Misstatements Identified During the Audit* (27 October 2009)
  - (g) ASA 500 *Audit Evidence* (27 October 2009)



## **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**

### **Amendments to ASQC 1**

7. Footnote \* to paragraph Aus 12.13 is amended to read as follows:

For example, ~~the Institute of~~ Chartered Accountants ~~in~~ Australia ~~and New Zealand~~, CPA Australia and the Institute of Public Accountants.

8. Footnote \* to paragraph A53 is amended to read as follows:

For example, ~~the professional accounting bodies in Australia comprises the Institute of~~ Chartered Accountants ~~in~~ Australia ~~and New Zealand~~, CPA Australia and the Institute of Public Accountants.

9. Paragraph A56 is amended to read as follows:

Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there are responsibilities under law, regulation or relevant ethical requirements is a legal or professional duty to do so.<sup>1</sup> Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly where data of a personal nature are concerned.

### **Amendments to ASA 210**

10. Footnote 11 to paragraph A11 is amended to read as follows:

See ASA 200, paragraph ~~A4A2~~

11. Footnote 14 to paragraph A16 is amended to read as follows:

See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph ~~A54A46~~.

12. Footnote 15 to paragraph A18 is amended to read as follows:

See ASA 315, paragraph ~~A59A54~~ and Appendix 1.

Appendix 1 is amended to read as follows:

... (Ref: Para. A23-~~A26A24~~)

...

13. Paragraph A26 is amended to read as follows:

When relevant, the following points could also be made in the audit engagement letter:

- Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.

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<sup>1</sup> See, for example, Section 140.7 and Section 225.35 of APES 110 *Code of Ethics for Professional Accountants*.

- Arrangements concerning the involvement of internal auditors and other staff of the entity.
- Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.
- A reference to, and description of, the auditor's responsibilities under law, regulation or relevant ethical requirements that address reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.
- Any restriction of the auditor's liability when such possibility exists.
- A reference to any further agreements between the auditor and the entity.
- Any obligations to provide audit working papers to other parties.

An example of an audit engagement letter is set out in Appendix 1.

#### **Amendments to ASA 220**

14. Footnote # to paragraph 7(p) is amended to read as follows:

For example, ~~the Institute of~~ Chartered Accountants ~~in~~ Australia ~~and New Zealand~~, CPA Australia and the Institute of Public Accountants.

15. A new paragraph after existing paragraph A8 is inserted as follows:

Law, regulation, or relevant ethical requirements<sup>2</sup> may require the auditor to request, prior to accepting the engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor's judgement, the auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor. For example, where the predecessor auditor has withdrawn from the engagement as a result of identified or suspected non-compliance with laws and regulations, the APES 110 *Code of Ethics for Professional Accountants* requires that the predecessor auditor, on request by a proposed successor auditor, provides all such facts and other information concerning such non-compliance that, in the predecessor auditor's opinion, the proposed successor auditor needs to be aware of before deciding whether to accept the audit appointment.<sup>3</sup>

16. Existing paragraph A29 is moved above to above existing paragraph A28 and the heading *Engagement Quality Control Review of Listed Entities* (ref para Aus 21.1).

17. As a result of the change made above, paragraph references are re-numbered and references to these paragraphs are updated accordingly.

#### **Amendments to ASA 240**

18. Footnote 3 to paragraph 5 is amended to read as follows:

See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, paragraph ~~A53-A54~~A51.

19. Footnote 4 to paragraph 6 is amended to read as follows:

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<sup>2</sup> See, for example, Sections 210.14 of APES 110 *Code of Ethics for Professional Accountants*.

<sup>3</sup> See, for example, Sections 225.31 of APES 110 *Code of Ethics for Professional Accountants*.

See ASA 200, paragraph A~~53~~<sup>54</sup>.

20. A new paragraph after existing paragraph 8 is inserted as follows:

The auditor may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, including fraud, which may differ from or go beyond this and other Australian Auditing Standards, such as:  
(Ref: Para. A6)

- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance, assessing the appropriateness of their response to non-compliance and determining whether further action is needed;
- (b) Communicating identified or suspected non-compliance with laws and regulations to other auditors (e.g., in an audit of a group financial report); and
- (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the auditor's work in accordance with this and other Australian Auditing Standards (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

21. Existing paragraph 12 is amended to read as follows:

In accordance with ASA 200<sup>4</sup>, the auditor shall maintain professional scepticism throughout the audit, recognising the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance. (Ref: Para. A8-A9)

22. Existing paragraph 40 is amended to read as follows:

If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters, unless prohibited by law or regulation, on a timely basis with~~to~~ the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref: Para. ~~A61-A62~~<sup>A60</sup>)

23. Existing paragraph 41 is amended to read as follows:

Unless all of those charged with governance are involved in managing the entity, if the auditor has identified or suspects fraud involving:

- (a) management;
- (b) employees who have significant roles in internal control; or
- (c) others where the fraud results in a material misstatement in the financial report,

the auditor shall communicate these matters with~~to~~ those charged with governance on a timely basis. If the auditor suspects fraud involving management, the auditor shall communicate these suspicions with~~to~~ those charged with governance and discuss with them the nature, timing and extent of audit procedures necessary to complete the audit. Such communications with those charged with governance are required unless the communication is prohibited by law or regulation. (Ref: Para. A61, ~~A63~~<sup>A60</sup> -~~A65~~<sup>A63</sup>)

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<sup>4</sup> ASA 200, paragraph 15

24. Existing paragraph 42 is amended to read as follows:

The auditor shall communicate, unless prohibited by law or regulation, with those charged with governance any other matters related to fraud that are, in the auditor's judgement, relevant to their responsibilities. (Ref: Para. ~~A66~~A64)

25. The heading above existing paragraph 43 is amended to read as follows:

~~Communications to Regulatory and Enforcement Authorities~~ Reporting Fraud to an Appropriate Authority Outside the Entity

26. Existing paragraph 43 is amended to read as follows:

If the auditor has identified or suspects a fraud, the auditor shall determine whether law, regulation or relevant ethical requirements; ~~there is a responsibility to report the occurrence or suspicion to a party outside the entity. Although the auditor's professional duty to maintain the confidentiality of client information may preclude such reporting, the auditor's legal responsibilities may override the duty of confidentiality in some circumstances.~~  
(Ref: Para. ~~A67~~~~65~~–~~A68~~67)

- (a) Require the auditor to report to an appropriate authority outside the entity.
- (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

27. New headings are inserted after existing paragraph A5 as follows:

**Responsibility for the Prevention and Detection of Fraud**

*Responsibilities of the Auditor* (Ref: Para. 9)

28. A new paragraph after existing paragraph A5 (and new heading) is inserted as follows:

Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, the APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed. Such steps may include the communication of identified or suspected non-compliance with laws and regulations to other auditors within a group, including a group engagement partner, component auditors or other auditors performing work at components of a group for purposes other than the audit of the group financial report.<sup>5</sup>

29. Existing Footnote 14 to existing paragraph A9 is amended to read as follows:

See ASA 200, paragraph ~~A49~~47.

30. The heading above existing paragraph A60 is amended to read as follows:

Communications to Management and with Those Charged With Governance (Ref: Para. ~~41~~–43)

31. A new paragraph before existing A60 is inserted as follows:

In some jurisdictions, law or regulation may restrict the auditor's communication of certain matters with management and those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity.

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<sup>5</sup> See Sections 225.21–225.22 of APES 110 *Code of Ethics for Professional Accountants*.

for example, when the auditor is required to report the fraud to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the auditor may be complex and the auditor may consider it appropriate to obtain legal advice.

32. The heading above existing paragraph A65 is amended to read as follows:

~~Communications to Regulatory and Enforcement Authorities~~ Reporting Fraud to an Appropriate Authority outside the Entity (Ref: Para. 4443)

33. Existing paragraph A65 is amended as follows:

ASA 250<sup>6</sup> provides further guidance with respect to the auditor's determination of whether reporting identified or suspected non-compliance with laws or regulations to an appropriate authority outside the entity is required or appropriate in the circumstances, including consideration of the auditor's duty of confidentiality. The auditor's professional duty to maintain the confidentiality of client information may preclude reporting fraud to a party outside the client entity. However, the auditor's legal responsibilities vary by country and, in certain circumstances, the duty of confidentiality may be overridden by statute, the law or courts of law. In some countries, the auditor of a financial institution has a statutory duty to report the occurrence of fraud to supervisory authorities. Also, in some countries the auditor has a duty to report misstatements to authorities in those cases where management and those charged with governance fail to take corrective action.

34. Existing paragraph A66 is amended to read as follows:

The determination required by paragraph 44 may involve complex considerations and professional judgements. Accordingly, (The auditor may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The auditor may also consider it appropriate to obtaining legal advice to understand the auditor's options and the professional or legal implications of taking any particular determine the appropriate course of action in the circumstances, the purpose of which is to ascertain the steps necessary in considering the public interest aspects of identified fraud.

35. As a result of the changes made above, paragraph references are re-numbered and references to these paragraphs are updated accordingly.

#### **Amendments to ASA 260**

36. Existing paragraph 7 is amended to read as follows:

In some jurisdictions, Law or regulation may restrict the auditor's communication of certain matters with those charged with governance. For example, Laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report identified or suspected non-compliance with laws and regulations to an appropriate authority pursuant to anti-money laundering legislation. In some these circumstances, the issues considered by the auditor potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such cases, and the auditor may consider it appropriate to obtaining legal advice.

37. Footnote 3 to paragraph A1 is amended to read as follows:

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<sup>6</sup> ASA 250, *Consideration of Laws and Regulations in an Audit of a Financial Report*, paragraphs A28-A34

As described in paragraph A6863 of ASA 700 *Forming an Opinion and Reporting on a Financial Report*, having responsibility for approving in this context means having the authority to conclude that all the statements that comprise the financial report, including the related notes, have been prepared.

38. Footnote 20 to paragraph A25 is amended to read as follows:

See ASA 700, paragraphs Aus 46.145 and A58.

39. Footnote 21 to paragraph A25 is amended to read as follows:

See ASA 700, paragraph 4140.

40. Footnote 22 to paragraph A26 is amended to read as follows:

See ASA 300, *Planning an Audit of a Financial Report*, paragraph A1543.

41. Footnote 23 to paragraph A28 is amended to read as follows:

See paragraphs 19–22 and A2423–A3332 of ASA 220, *Quality Control for an Audit of a Financial Report*.

42. Footnote 27 to paragraph A52 is amended to read as follows:

See ASA 315, paragraph A7877.

43. Appendix 1 is amended to read as follows:

...

- 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* - paragraphs 15, 2049 and 2322–2524

...

- ~~ASA 700 *Forming an Opinion and Reporting on a Financial Report* — paragraph 46~~

...

#### **Amendments to ASA 450**

44. Existing paragraph 8 is amended to read as follows:

The auditor shall communicate, unless prohibited by law or regulation, on a timely basis all misstatements accumulated during the audit with the appropriate level of management, ~~unless prohibited by law or regulation~~.<sup>7</sup> The auditor shall request management to correct those misstatements. (Ref: Para. A710–A912)

45. Existing paragraph 9 is amended to read as follows:

... (Ref: Para. A1340)

46. Existing paragraph 10 is amended to read as follows:

... (Ref: Para. A1411–A1512)

47. Existing paragraph 11 is amended to read as follows:

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<sup>7</sup> See ASA 260, *Communication with Those Charged with Governance*, paragraph 7

... (Ref: Para. A~~1613~~ A~~22A17~~, A~~2419~~ A~~25A20~~)

... (Ref: Para. A~~2318~~)

48. Existing paragraph 12 is amended to read as follows:

... (Ref: Para. A~~26~~ A~~28A21~~ A~~23~~)

49. Existing paragraph 14 is amended to read as follows:

... (Ref: Para. A~~2924~~)

50. Existing paragraph 15 is amended to read as follows:

... (Ref: Para. A~~3025~~)

...

51. Existing paragraph A11 is amended to read as follows:

In some jurisdictions, law or regulation may restrict the auditor's communication of certain misstatements to management, or others, within the entity. For example, laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report identified or suspected non-compliance with law or regulation to an appropriate authority pursuant to anti-money laundering legislation. In some of these circumstances, potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such cases, the issues considered by the auditor may be complex\* and the auditor may consider seeking it appropriate to obtain legal advice.

52. Existing paragraph A20 is amended to read as follows:

Determining whether a classification misstatement is material involves the evaluation of qualitative considerations, such as the effect of the classification misstatement on debt or other contractual covenants, the effect on individual line items or sub-totals, or the effect on key ratios. There may be circumstances where the auditor concludes that a classification misstatement is not material in the context of the financial report as a whole, even though it may exceed the materiality level or levels applied in evaluating other misstatements. For example, a misclassification between balance sheet line items may not be considered material in the context of the financial report as a whole when the amount of the misclassification is small in relation to the size of the related balance sheet line items and the misclassification does not affect the income statement or any key ratios. Depending on the circumstances, misstatements in disclosures could also be indicative of fraud, and, for example, may arise from:

- Misleading disclosures that have resulted from bias in management's judgements; or
- Extensive duplicative or uninformative disclosures that are intended to obscure a proper understanding of matters in the financial report.

When considering the implications of misstatements in classes of transactions, account balances and disclosures, the auditor exercises professional scepticism in accordance with ASA 200.<sup>8</sup>

53. Existing paragraph A22 is amended to read as follows:

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\* See, for example, Part 9.4AAA of the *Corporations Act 2001*.

<sup>8</sup> See ASA 200, paragraph 15.



ASA 240<sup>9</sup> explains how the implications of a misstatement that is, or may be, the result of fraud ought to be considered in relation to other aspects of the audit, even if the size of the misstatement is not material in relation to the financial report. Depending on the circumstances, misstatements in disclosures could also be indicative of fraud, and, for example, may arise from:

- Misleading disclosures that have resulted from bias in management's judgements; or
- Extensive duplicative or uninformative disclosures that are intended to obscure a proper understanding of matters in the financial report.

When considering the implications of misstatements in classes of transactions, account balances and disclosures, the auditor exercises professional scepticism in accordance with ASA 200.<sup>10</sup>

#### **Amendments to ASA 500**

54. Existing paragraph 7 is amended to read as follows:

When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence. (Ref: Para. A26–A34~~33~~)

55. Existing paragraph A26 is amended to read as follows:

As noted in paragraph A1, while audit evidence is primarily obtained from audit procedures performed during the course of the audit, it may also include information obtained from other sources such as, for example, previous audits, in certain circumstances, ~~and~~ a firm's quality control procedures for client acceptance and continuance and complying with certain additional responsibilities under law, regulation or relevant ethical requirements (e.g., regarding an entity's non-compliance with laws and regulations). The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based.

56. A new paragraph after existing paragraph A33 is inserted as follows:

ASA 250<sup>11</sup> provides further guidance with respect to the auditor complying with any additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's identified or suspected non-compliance with laws and regulations that may provide further information that is relevant to the auditor's work in accordance with Australian Auditing Standards and evaluating the implications of such non-compliance in relation to other aspects of the audit.

57. As a result of the changes made above, paragraph references are re-numbered and references to these paragraphs are updated accordingly.

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<sup>9</sup> See ASA 240, paragraph 35.

<sup>10</sup> See ASA 200, paragraph 15.

<sup>11</sup> See ASA 250, *Consideration of Laws and Regulations in an Audit of a Financial Report*, paragraph 9



## Amendments to ASRE 2400

1. Existing paragraph 48 is amended to read as follows:

The assurance practitioner's enquiries of management and others within the entity, as appropriate, shall include the following: (Ref: Para. A84–A88~~87~~)

...

- (d) The existence of any actual, suspected or alleged:
  - (i) Fraud or illegal acts affecting the entity; and
  - (ii) Non-compliance with provisions of laws and regulations that are generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial report, such as tax and superannuation laws and regulations;

2. The heading above existing paragraph 52 is amended to read as follows:

Fraud and non-compliance with laws ~~and~~ regulations

3. Existing paragraph 52 is amended to read as follows:

When there is an indication that fraud or non-compliance with laws ~~and~~ regulations, or suspected fraud or non-compliance with laws ~~and~~ regulations, has occurred in the entity, the assurance practitioner shall:

- (a) Communicate that matter, unless prohibited by law or regulation, with ~~to~~ the appropriate level of ~~senior~~ management or those charged with governance as appropriate; (Ref: Para. A93)
- (b) Request management's assessment of the effect(s), if any, on the financial report;
- (c) Consider the effect, if any, of management's assessment of the effects of identified or suspected fraud or non-compliance with laws ~~and~~ regulations communicated to the assurance practitioner on the assurance practitioner's conclusion on the financial report and on the assurance practitioner's report; and
- (d) Determine whether law, regulation or relevant ethical requirements ~~there is a responsibility to report the occurrence or suspicion of fraud or illegal acts to a party outside the entity.~~ (Ref: Para. A92~~94~~–A98)
  - (i) Require the assurance practitioner to report to an appropriate authority outside the entity.
  - (ii) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

4. A new paragraph after existing A87 is inserted as follows:

The assurance practitioner may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, including fraud, which may differ from or go beyond this ASRE, such as:

- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance and considering whether further action is needed;
- (b) Communicating identified or suspected non-compliance with laws and regulations to an auditor, for example a group engagement partner;<sup>1</sup> and

<sup>1</sup> See, for example, Sections 225.44–225.48 of APES 110 *Code of Ethics for Professional Accountants*.

- (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the assurance practitioner's work in accordance with this Assurance Standard (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

5. The heading before existing paragraph A92 is amended to read as follows:

Fraud and non-compliance with laws ~~or~~ and regulations (Ref: Para. 52(a) and (d))

6. A heading before existing paragraph A92 is inserted as follows:

Communication with management and those charged with governance

7. A new paragraph before existing A92 is inserted as follows:

In some jurisdictions, law or regulation may restrict the assurance practitioner's communication of certain matters with management or those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the assurance practitioner is required to report identified or suspected non-compliance with laws and regulations to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the assurance practitioner may be complex and the assurance practitioner may consider it appropriate to obtain legal advice.

Reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity

8. Existing paragraph A92 is amended to read as follows:

~~Under this ASRE, if the assurance practitioner has identified or suspects fraud or illegal acts, the assurance practitioner is required to determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:~~

- (a) Law, regulation or relevant ethical requirements require the assurance practitioner to report;
- (b) The assurance practitioner has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements (see paragraph A95); or
- (c) Law, regulation or relevant ethical requirements provide the assurance practitioner with the right to do so (see paragraph A96).

~~Although the assurance practitioner's professional duty to maintain the confidentiality of client information may preclude such reporting, the assurance practitioner's legal responsibilities may override the duty of confidentiality in some circumstances.~~

9. A new paragraph after existing A92 is inserted as follows:

In some cases, the relevant ethical requirements may require the assurance practitioner to report or to consider whether reporting identified or suspected fraud or non-compliance with laws and regulations to an appropriate authority outside the entity is an appropriate action in these circumstances. For example, APES 110 *Code of Ethics for Professional Accountants* requires the assurance practitioner to take steps to respond to identified or suspected non-compliance with laws and regulations, and consider whether further action is needed, which may include reporting to an appropriate authority outside the entity.<sup>2</sup> APES 110 *Code of Ethics for Professional Accountants* explains that such reporting would not be considered a

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<sup>2</sup> See, for example, Section 225.51 to 225.52 of APES 110 *Code of Ethics for Professional Accountants*.

breach of the duty of confidentiality under APES 110 Code of Ethics for Professional Accountants.<sup>3</sup>

10. A new paragraph after existing A92 (and insertion above) is inserted as follows:

Even if law, regulation or relevant ethical requirements do not include requirements that address reporting identified or suspected non-compliance, they may provide the assurance practitioner with the right to report identified or suspected fraud or non-compliance with laws and regulations to an appropriate authority outside the entity.

11. A new paragraph after existing A92 (and insertions above) is inserted as follows:

In other circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the assurance practitioner's duty of confidentiality under law, regulation or relevant ethical requirements.

12. A new paragraph after existing A92 (and insertions above) is inserted as follows:

The determination required by paragraph 52(d) may involve complex considerations and professional judgements. Accordingly, the assurance practitioner may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The assurance practitioner may also consider obtaining legal advice to understand the assurance practitioner's options and the professional or legal implications of taking any particular course of action.

13. As a result of the changes made above, paragraph references are re-numbered and references to these paragraphs are updated accordingly.

#### **Amendments to ASAE 3000**

14. Existing paragraph 45 is amended to read as follows:

The assurance practitioner shall make enquiries of the appropriate party(ies) regarding:

- (a) Whether they have knowledge of any actual, suspected or alleged intentional misstatement or non-compliance with laws and regulations affecting the subject matter information; (Ref: Para. A101–A102)
- (b) Whether the responsible party has an internal audit function and, if so, make further enquiries to obtain an understanding of the activities and main findings of the internal audit function with respect to the subject matter information; and
- (c) Whether the responsible party has used any experts in the preparation of the subject matter information.

15. Existing paragraph 78 is amended to read as follows:

The assurance practitioner shall consider whether, pursuant to the terms of the engagement and other engagement circumstances, any matter has come to the attention of the assurance practitioner that is to be communicated with the responsible party, the measurer or evaluator, the engaging party, those charged with governance or others. (Ref: Para. A193~~492~~–A199)

16. A new paragraph after existing A101 is inserted as follows:

The assurance practitioner may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, which may differ from or go beyond the assurance practitioner's responsibilities under this ASAE, such as:

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<sup>3</sup> See, for example, Section 140.7 and Section 225.53 of APES 110 Code of Ethics for Professional Accountants.

- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance and considering whether further action is needed;
- (b) Communicating identified or suspected non-compliance with laws and regulations to an auditor;<sup>4</sup> and
- (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the assurance practitioner's work in accordance with this and any other ASAE (e.g., regarding the integrity of the responsible party or those charged with governance). Paragraphs A195–A199 further address the assurance practitioner's responsibilities under law, regulation or relevant ethical requirements regarding communicating and reporting identified or suspected non-compliance with laws and regulations.

17. A new heading after existing paragraph A192 is inserted as follows:

Communication with Management and Those Charged with Governance

18. A new paragraph after existing paragraph A192 (and heading) is inserted as follows:

Relevant ethical requirements may include a requirement to report identified or suspected non-compliance with laws and regulations to an appropriate level of management or those charged with governance. In some jurisdictions, law or regulation may restrict the assurance practitioner's communication of certain matters with the responsible party, management or those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the assurance practitioner is required to report the identified or suspected non-compliance to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the assurance practitioner may be complex and the assurance practitioner may consider it appropriate to obtain legal advice.

19. A new heading is inserted below existing paragraph A192 (and changes above) as follows:

Reporting of Identified or Suspected Non-Compliance with Laws and Regulations to an Appropriate Authority outside the Entity

20. A new paragraph below existing paragraph A192 (and changes above) is inserted as follows:

Law, regulation or relevant ethical requirements may:

- (a) Require the assurance practitioner to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.
- (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.<sup>5</sup>

21. A new paragraph after existing paragraph A192 (and changes above) is inserted as follows:

Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:

- (a) Law, regulation or relevant ethical requirements require the assurance practitioner to report;
- (b) The assurance practitioner has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements; or.

<sup>4</sup> See, for example, Sections 225.44–225.48 of APES 110 *Code of Ethics for Professional Accountants*.

<sup>5</sup> See, for example, Section 225.51 to 225.52 of APES 110 *Code of Ethics for Professional Accountants*.

- (c) Law, regulation or relevant ethical requirements provide the assurance practitioner with the right to do so.
22. A new paragraph after existing paragraph A192 (and changes above) is inserted as follows:
- The reporting of identified or suspected non-compliance with laws and regulations in accordance with law, regulation or relevant ethical requirements may include non-compliance with laws and regulations that the assurance practitioner comes across or is made aware of when performing the engagement but which may not affect the subject matter information. Under this ASAE, the assurance practitioner is not expected to have a level of understanding of laws and regulations beyond those affecting the subject matter information. However, law, regulation or relevant ethical requirements may expect the assurance practitioner to apply knowledge, professional judgement and expertise in responding to such non-compliance. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.
23. A new paragraph after existing paragraph A192 (and changes above) is inserted as follows:
- In some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the assurance practitioner's duty of confidentiality under law, regulation, or relevant ethical requirements. In other cases, reporting identified or suspected non-compliance to an appropriate authority outside the entity would not be considered a breach of the duty of confidentiality under the relevant ethical requirements.<sup>6</sup>
24. A new paragraph after existing paragraph A192 (and changes above) is inserted as follows:
- The assurance practitioner may consider consulting internally (e.g., within the firm or network firm), obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality).<sup>7</sup>
25. As a result of the changes made above, paragraph references are re-numbered and references to these paragraphs are updated accordingly.

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<sup>6</sup> See, for example, Section 140.7 and Section 225.53 of APES 110 *Code of Ethics for Professional Accountants*.

<sup>7</sup> See, for example, Section 225.55 of APES 110 *Code of Ethics for Professional Accountants*.

## Amendments to ASAE 3402

26. Existing paragraph 2 is amended to read as follows:

The *Framework for Assurance Engagements* (the Assurance Framework) states that an assurance engagement may be a “reasonable assurance” engagement or a “limited assurance” engagement and that an assurance engagement may be either an attestation engagement or a direct engagement.<sup>8</sup> This ASAE only deals with reasonable assurance attestation engagements.<sup>9</sup>

27. Existing paragraph 6 is amended to read as follows:

[Deleted by the AUASB. Refer Aus 6.1.<sup>10,11</sup>]

28. Existing paragraph 15 is amended to read as follows:

The service auditor shall determine whether the service organisation has used suitable criteria in preparing the description of its system, in evaluating whether controls are suitably designed, and, in the case of a type 2 report, in evaluating whether controls are operating effectively.<sup>12</sup>

29. Existing paragraph 56 is amended to read as follows:

If the service auditor becomes aware of non-compliance with laws and regulations, fraud, or uncorrected errors attributable to the service organisation that are not clearly trivial and may affect one or more user entities, the service auditor shall determine whether the matter has been communicated appropriately to affected user entities. If the matter has not been so communicated and the service organisation is unwilling to do so, the service auditor shall take appropriate action. (Ref: Para. A53)

30. Existing paragraph A2 is amended to read as follows:

The service organisation may not be able to assert that the system is suitably designed when, for example, the service organisation is operating a system that has been designed by a user entity or is stipulated in a contract between a user entity and the service organisation. Because of the inextricable link between the suitable design of controls and their operating effectiveness, the absence of a statement with respect to the suitability of design will likely preclude the service auditor from concluding that the controls provide reasonable assurance that the control objectives have been met and thus from opining on the operating effectiveness of controls. As an alternative, the **assurance** practitioner may choose to accept an agreed-upon procedures engagement to perform tests of controls, or an assurance engagement under ASAE 3000 to conclude on whether, based on tests of controls, the controls have operated as described.

31. Existing paragraph A53 is amended to read as follows:

Appropriate actions to respond to the circumstances identified in paragraph 56, unless prohibited by law or regulation, may include:

- Obtaining legal advice about the consequences of different courses of action.
- Communicating with those charged with governance of the service organisation.
- Determining whether to communicate with third parties (e.g., law, regulation or relevant ethical requirements may require the service auditor to report to an appropriate authority outside the entity or the external auditor of the service organisation,<sup>13</sup> or establish responsibilities under which such reporting may be appropriate in the

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<sup>8</sup> ASAE 3000, paragraph 12

<sup>9</sup> See paragraphs 13 and 53(k) of this ASAE.

<sup>10</sup> [Footnote deleted by the AUASB.]

<sup>11</sup> [Footnote deleted by the AUASB.]

<sup>12</sup> See ASAE 3000, paragraph 35.

<sup>13</sup> See ASAE 3000, paragraph 41.

<sup>13</sup> See, for example, Section 225.44 to 225.48 of APES 110 *Code of Ethics for Professional Accountants*.

circumstances). ~~Communicating with third parties (for example, a regulator) when required to do so.~~

- Modifying the service auditor's opinion, or adding an Other Matter paragraph.
- Withdrawing from the engagement.

#### **Amendments to ASAE 3410**

32. Existing paragraph 10 is amended to read as follows:

[Deleted by the AUASB. Refer Aus 10.1. <sup>14,15</sup>]

33. Existing paragraph 14 is amended to read as follows:

For the purposes of this ASAE, the following terms have the meanings attributed below: <sup>§8</sup>

34. Existing paragraph Aus 76.2(j) is amended to read as follows:

A statement that the firm of which the assurance practitioner complies with relevant ethical requirements related to other assurance engagements. <sup>14,15</sup>

35. Paragraph 78 is amended to read as follows:

The assurance practitioner shall communicate, unless prohibited by law or regulation, with ~~to~~ those person(s) with oversight responsibilities for the GHG statement the following matters that come to the assurance practitioner's attention during the course of the engagement, and shall determine whether there is a responsibility to report them to another party within or outside the entity:

- (a) Deficiencies in internal control that, in the assurance practitioner's professional judgement, are of sufficient importance to merit attention;
- (b) Identified or suspected fraud; and
- (c) Matters involving identified or suspected non-compliance with laws and~~or~~ regulations, other than when the matters are clearly trivial. (Ref: Para. A87)

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<sup>14</sup> [Footnote deleted by the AUASB.]

<sup>15</sup> [Footnote deleted by the AUASB.]