



AUASB Agenda Paper

Title:	AUASB Sustainability Assurance Consultation Paper - Overview	Date:	23 May 2024
Office of the AUASB Staff:	Anne Waters	Agenda Paper No:	5.1

Objective of this Agenda Paper

1. To provide AUASB members with background on the recent consultation on the AUASB Consultation Paper Assurance over Climate and Other Sustainability Information (CP) and related outreach activities.

Background

2. The AUASB issued its CP in March 2024¹, seeking feedback on:
 - (a) the demand for assurance, the ability of auditors and their experts to meet that demand, and the preparedness of companies. This will assist in developing a proposed assurance phasing model;
 - (b) a proposal to adopt the standard on assurance over sustainability information being developed by the IAASB (ISSA 5000 *General Requirements for Sustainability Assurance Engagements*); and
 - (c) the possible development of an Australian assurance pronouncement to supplement ISSA 5000 on matters specific to the Australian reporting framework.
3. Comments on the Consultation Paper were due by 3 May 2024.

Summary of Outreach

4. The Office of the AUASB received 29 written submissions (including 2 confidential) from a broad range of stakeholder groups:
 - 4 'Big 4' audit firms
 - 2 Other audit firms
 - 1 Public sector auditor group
 - 2 Non-accountant assurance practitioners
 - 9 Preparers / Directors
 - 2 Professional Accounting Bodies (combined submission)
 - 7 Investors / users
 - 1 Regulator
 - 2 Academics
5. The AUASB held roundtables in Sydney, Melbourne, Perth and online to obtain stakeholder feedback and input on matters contained in its CP. Over 100 Australian stakeholders

¹ The CP was issued on 20 March 2024 and re-issued with minor amendments on 4 April 2024 following the announcement that mandatory climate reporting by Group 1 entities was being delayed and will start from years commencing 1 January 2025.

attended these events, representing financial statement audit firms (small, medium and large), public sector auditors, non-accountant assurance providers, sustainability consultants, preparers, directors, regulators, professional bodies, and academics.

6. In addition, the Office of the AUASB has reviewed the following for any feedback on assurance over climate-related financial disclosures:
 - (a) submissions to the Treasury's Consultation on the Exposure Draft Legislation;
 - (b) submissions to the Senate Economics Legislation Committee Inquiry into the legislation introduced into Parliament in March 2024 (the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024; and
 - (c) those of the submissions to the AASB's ED SR 1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* that are available from the respondent's website.

No significant matters were noted from these submissions that were not identified from the submissions to the AUASB Consultation Paper, the AUASB roundtables or our other outreach.

7. The Office of the AUASB met with various stakeholders representing directors, corporates, audit firms and users to gather feedback. All relevant feedback has been included in the board papers (**Agenda Items 5.2 – 5.5**).
8. The Office of the AUASB has considered all the feedback and has documented this analysis in the following Agenda Papers:
 - (a) Assurance phasing model (**Agenda Item 5.2**)
 - (b) Proposal to adopt ISSA 5000 (**Agenda Item 5.3**)
 - (c) The possible development of a local pronouncement (**Agenda Item 5.4**)
 - (d) Other matters (**Agenda Item 5.5**)

Each of the Agenda Papers includes a summary of the feedback received.

How the Office of the AUASB has analysed the feedback received

9. To assist in analysing the feedback received on the CP, the Office of the AUASB has prepared a Spreadsheet (see **Agenda Paper 5.1.1**), which records the responses to each question in the CP. The Spreadsheet subclassifies and collates the responses to each question to assist in identifying any common themes.
10. While all matters of significance to the recommendations to the Board in Agenda Papers 5.2 to 5.4 have been considered, a further detailed review of all submissions will be undertaken to ensure that all matters requiring a local response have been identified.
11. The 27 non-confidential submissions are available [here](#).

Next Steps

12. Refer to **Agenda Item 5.6** - Next Steps and Other Considerations.



AUASB Agenda Paper

Title:	AUASB Sustainability Assurance Consultation Paper – Assurance Phasing Model	Date:	23 May 2024
Office of the AUASB Staff:	Anne Waters / Rebecca Mattocks	Agenda Paper No:	5.2

Objective of this Agenda Paper

1. To inform AUASB members of the feedback received on the [Consultation Paper](#) (CP) regarding developing an assurance phasing model that will be given effect through an auditing standard having the force of law under the *Corporations Act 2001*.
2. For AUASB members to provide feedback on two possible options for a proposed assurance phasing model, with one to be included in an Exposure Draft.

Questions for the Board

Question No.	Question for the Board
1	Does the AUASB have any comments on the feedback received from stakeholders on developing an assurance phasing model?
2	Does the AUASB have feedback on the two possible options for a proposed assurance phasing model or on other options for inclusion in an Exposure Draft?
3	Do AUASB members support the development of an Exposure Draft for further consideration at a future meeting?

Background

3. Refer to Agenda Item 5.1 for the full background on the AUASB Consultation Paper on *Assurance Over Climate and Other Sustainability Information* and a summary of the number and type of respondents. To assist us in developing a proposed assurance phasing model for consultation in an Exposure Draft, the AUASB asked the following questions:

<ol style="list-style-type: none">1. Consideration should be given to the relative importance of each type of disclosure and the cost of assurance over that information. In that context, do you believe that limited assurance or reasonable assurance should be required earlier or later for any disclosures in the possible assurance phasing model in Attachment 1? Please provide reasons.2. We are seeking information on the expected ability of audit firms to resource assurance engagements using partners and staff with appropriate competence, skills expertise, as well as their own internal or external experts. If you are an auditor, do you consider the possible assurance phasing in Attachment 1 could be adequately resourced by your audit firm for
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entities whose financial reports are audited by your firm? If not, please identify any pressure points in the model and reasons.

3. Do you consider that the systems and processes of entities in Groups 1, 2 and 3 will be developed, implemented and sufficiently reliable to facilitate the assurance processes as outlined in the possible assurance phasing model in Attachment 1?

Matters for Discussion

Feedback in written submissions

4. To assist with analysing the written feedback, the Office of the AUASB has included the responses to each question in the Board Paper 'Summary of Submissions to Consultation Paper' (Agenda Paper 5.1.1). The tab "Phasing analysis" has been prepared to help identify the high-level themes.
5. The questions asked in the CP were broad, and the feedback received in the written submissions was very mixed. The following is a summary of the key themes:
 - All respondents expressed overall support for phasing in assurance to build capacity and capability for preparers, auditors and their experts.
 - 28 out of 29 respondents commented on the possible assurance model contained in the CP.
 - 14 considered the possible model too ambitious, stemming from concerns regarding capacity and the cost of assurance. Preparers (7) and smaller audit firms (2) predominantly expressed this view.
 - 21 recommended that all disclosures should be phased in through limited assurance (LA) for a period of time before transitioning to reasonable assurance (RA). Of the 8 respondents who indicated a specific timeframe, the average suggested duration of retaining LA is approximately 2-3 years. This is due to:
 - Reporting entities may need more time to develop mature reporting systems and processes, and internal capabilities.
 - Requiring assurance before reporting systems are sufficiently robust may lead to modified assurance opinions on the climate report, which is not in the public interest. A modified assurance opinion on the climate report could also affect the auditor's report on the financial report through the requirements of ASA 720 *The Auditor's Responsibilities Relating to Other Information*.
 - Entities should be able to adopt assurance voluntarily.
 - 9 proposed implementing assurance requirements over some specific disclosures due to their importance earlier than the possible model in the CP. However, the areas identified differed slightly. The disclosures identified where there was some consistency were governance and risk management. There was mixed feedback on strategy as some disclosures contain forward-looking information, i.e. scenario analysis. Some respondents stated that governance, risk management, and strategy are important in developing high-quality sustainability reporting and therefore should be subject to assurance earlier.
 - 3 respondents considered that reasonable assurance over scenario analysis and climate resilience (parts of strategy) should be delayed due to challenges in reporting and providing assurance over forward-looking information.
 - 5 respondents raised concerns with the possible timeline of assurance over Scope 3 emissions due to the need to develop methodologies / guidance on how to calculate emissions and the availability of sufficient and appropriate information, including from third parties.

- 3 respondents suggested consistent assurance levels across all information for a particular reporting period, as this will improve audit quality and the understandability of the assurance report.
 - 3 respondents considered that it is necessary to phase in assurance requirements consistently across Groups 1, 2 and 3.
 - Most respondents support limited assurance over scope 1 and 2 emissions in the first year. 6 respondents consider that no other disclosures should be subject to assurance in year 1.
 - The Australian Institute of Company Directors supports reasonable assurance as soon as practicable.
 - The feedback from audit firms on their ability to meet the timeline in the possible assurance phasing model differed based on their size, in particular:
 - The large audit firms confirmed they are building capacity and acknowledge that while it will be challenging, they anticipate meeting this timeline.
 - Smaller and mid-size audit firms are concerned that they will not have the capacity to meet the timeline, including access to specialists.
 - The assurance requirements for the first year of reporting should be the same regardless of year-end, i.e. 30 June 2026 should be the same as 31 December 2025.
 - There was mixed feedback on the phasing of assurance for Groups 2 and 3. Some consider that these entities should transition at the same pace as Group 1 (albeit a year or two later, respectively); however, others commented on the need to phase more slowly as these entities may not be ready.
6. Some stakeholders expressed the following views:
- There is confusion about who can provide assurance and why non-accountant assurance providers cannot provide this assurance. The Office of the AUASB notes that the draft legislation requires the assurance provider to be the financial statement auditor.
 - Several respondents commented that they do not support the eventual requirement that all disclosures be subject to reasonable assurance by 2031. The Office of the AUASB notes that this requirement is in the draft legislation and, therefore, cannot be changed by the AUASB.
 - Several questioned why the possible assurance phasing model has delayed the assurance of the 'appropriateness' of other metrics and targets compared to assurance over the calculation of the other metrics and targets.
 - Several raised the importance of the assurance requirements being aligned where possible with other jurisdictions such as the EU, noting that the Australian legislative endpoint of RA over all climate-related financial disclosures by years commencing 1 July 2030 is more ambitious than some other jurisdictions. Some respondents outlined the reporting and assurance requirements currently being proposed in other jurisdictions, including New Zealand, the United Kingdom, the United States and Europe, as follows:
 - New Zealand – limited assurance over Scope 1, 2 and 3 emissions only by years ending 27 October 2024.
 - United States – limited assurance over Scope 1 and 2 emissions for large accelerated filers by years ending 31 December 2029 and reasonable assurance by years ending 31 December 2033. However this is subject to change.
 - Europe – limited assurance over CSRD from the commencement of reporting, i.e., years beginning 1 January 2024 and plans for an assessment to determine if reasonable assurance is feasible from 2028.

Whilst the Office of the AUASB acknowledges the differing assurance requirements in other jurisdictions, the possible assurance models have been developed in line with the Australian legislative requirements in the Bill before Parliament.

Feedback received at AUASB Roundtables and other forums

7. Capacity and competency concerns:

- The demand for credible information must be balanced with the ability of the audit profession to meet that demand.
- Concerns about client readiness due to underdeveloped systems and processes hindering the ability to generate reliable external reports. This may result in a high level of qualifications on sustainability reports, which may result in modifications to the financial report and impact market confidence.
- There are mixed views on the capacity and competency of financial statement auditors to meet the likely demand. Big 4 firms acknowledge the challenge and are building capacity to meet the demand. Smaller firms expressed concerns about their ability to meet the demand and have access to appropriately qualified and experienced experts.
- It was widely acknowledged that the current pool of financial statement auditors with the necessary climate expertise is low, and that significant investment is required to upskill.
- Representatives from sustainability consultants and non-financial statement auditors expressed concern that financial statement auditors do not currently have climate-related experience and will need time to build this competency.

8. Possible assurance phasing model:

- There were mixed views on the possible assurance phasing model, including:
 - A more nuanced approach to assurance levels should be taken to acknowledge that many disclosures might only be capable of achieving limited assurance for a period of time.
 - Some stakeholders advocated for a slower transition from limited to reasonable assurance as companies and auditors build capacity. This included questioning why the possible model proposes reasonable assurance on all disclosures for years ended 30 June 2028 when the legislation requires this by 2031.
 - There should be limited assurance for a period (say 2 years) before transitioning to reasonable assurance.
 - The need to mandate assurance for all disclosures was questioned.
 - Many raised the difficulty of assuring scope 3 emissions and consider that the transition to reasonable assurance should be deferred as long as possible.
 - Reconsider the assurance requirements for the reporting period for June year ends for consistency with December year ends. Generally, the assurance requirements should be based on the years of reporting, i.e. first year, second year, etc.
 - The extent of assurance required for forward-looking disclosures and the challenges faced by different reporting entities, particularly Group 3 entities, should be considered.
 - Concern that having different assurance levels for different disclosures may make the audit report long and confusing.

Development of Proposed Assurance Phasing Model

9. The feedback received was very mixed, and there was no overall consensus. The Office of the AUASB has considered all the feedback received and has developed two possible assurance phasing models (Option A and Option B) for AUASB members to consider. Refer to Appendix A for these models.

10. The two options presented for the AUASB's consideration reflect the Office of the AUASB's best endeavours to reflect the majority of views expressed by respondents to the CP. However, there was not a clear consensus regarding different aspects of the possible model. Options A and B are the two most supported models identified by the Office of the AUASB in its analysis.
11. Both options have been developed with the following assumptions:
 - (a) Consistency with the following in the Bill before Parliament:
 - (i) The timing of mandatory reporting for Groups 1, 2 and 3.
 - (ii) The reporting of Scope 3 emissions is required from the second year of reporting and that the level of assurance should be aligned with scenario analysis and transition plans.
 - (iii) No delay in quantitative scenario analysis compared to qualitative scenarios analysis¹.
 - (iv) There is no longer a deferral for industry-based metrics to years commencing 1 July 2030 onwards.
 - (v) Assurance over Scope 1 and 2 emissions is required from the first year of reporting.
 - (b) The AASB reporting standards are issued without any changes that would affect the assurance phasing.
12. Option A is as follows:
 - (a) Based on the majority of views, all disclosures are to be subject to limited assurance before moving to reasonable assurance. There was no consensus on how long to wait until reasonable assurance with some suggesting 2 – 3 years, and others saying as long as possible. The Office of the AUASB determined that the fourth year of reporting was appropriate to give preparers and auditors sufficient time, as well as provide sufficient time to phase in Groups 2 and 3. Note this is one year later for groups 1 and 2 than in the CP.
 - (b) The assurance levels for all disclosures will move at the same time, where possible, to ensure the assurance report is understandable and to address interdependencies between disclosures.
 - (c) Qualitative scenario analysis and quantitative scenario analysis have been combined into a single disclosure topic to align with the AASB's ED SR 1.
13. Option B differs from Option A, as follows:
 - (a) Governance was raised by a number of respondents to be very important and the work effort between LA and RA may not be significant, and therefore should be subject to assurance as soon as possible and move to RA as quickly as possible.
 - (b) Governance, risk management, and strategy (risks and opportunities only) should transition to reasonable assurance more quickly than other disclosures as they are important in how an entity will manage its climate-related risks and opportunities. These disclosures are linked and should be subject to the same assurance requirements.
14. Options A and B are consistent with the majority of feedback received.

¹ The possible phasing models in the AUASB's Consultation Paper had regard to statements in the [Government's Policy Position Statement](#) that quantitative scenario analysis would start later than qualitative scenario analysis and that industry metrics would not be required until 2030/1. Because this is not reflected in the Bill before Parliament or in the AASB's exposure draft, these disclosures are not separated for different assurance phasing in Options A and B in this paper.



APPENDIX A – Options for a Possible Assurance Phasing Model

OPTION A	First Year of Reporting*	Second Year of Reporting	Third Year of Reporting	Fourth Year of Reporting	Fifth Year of Reporting	Sixth Year of Reporting**
Governance	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Strategy – Risks and Opportunities	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Climate Resilience Assessments / Scenario Analysis	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Transition Plans	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Risk Management	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Scope 1 and 2 Emissions	Limited	Reasonable	Reasonable	Reasonable	Reasonable	Reasonable
Scope 3 Emissions	N/A	Limited	Limited	Reasonable	Reasonable	Reasonable
Climate-related Metrics and Targets	None	Limited	Limited	Reasonable	Reasonable	Reasonable

* Group 1 – Years commencing 1 January 2025. Group 2 – Years commencing 1 July 2026. Group 3 – Years commencing 1 July 2027.

** Group 3 is to be subject to reasonable assurance across all disclosures by years commencing 1 July 2030.

Note: The phasing for assurance on Statements that there are no material climate-related risks and opportunities will be the same as for ‘Strategy – Risks and Opportunities’.

OPTION B	First Year of Reporting*	Second Year of Reporting	Third Year of Reporting	Fourth Year of Reporting	Fifth Year of Reporting	Sixth Year of Reporting**
Governance	Limited	Limited	Reasonable	Reasonable	Reasonable	Reasonable
Strategy – Risks and Opportunities	None	Limited	Reasonable	Reasonable	Reasonable	Reasonable
Climate Resilience Assessments / Scenario Analysis	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Transition Plans	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Risk Management	None	Limited	Reasonable	Reasonable	Reasonable	Reasonable
Scope 1 and 2 Emissions	Limited	Reasonable	Reasonable	Reasonable	Reasonable	Reasonable
Scope 3 Emissions	N/A	Limited	Limited	Reasonable	Reasonable	Reasonable
Climate-related Metrics and Targets	None	Limited	Limited	Reasonable	Reasonable	Reasonable

* Group 1 – Years commencing 1 January 2025. Group 2 – Years commencing 1 July 2026. Group 3 – Years commencing 1 July 2027.

** Group 3 is to be subject to reasonable assurance across all disclosures by years commencing 1 July 2030.

Note: The phasing for assurance on Statements that there are no material climate-related risks and opportunities will be the same as for ‘Strategy – Risks and Opportunities’.



AUASB Agenda Paper

Title:	AUASB Sustainability Assurance Consultation Paper – Adoption of ISSA 5000 General Requirements for Sustainability Assurance Engagements	Date:	23 May 2024
Office of the AUASB Staff:	Marina Michaelides	Agenda Paper No:	5.3

Objective of this Agenda Paper

1. To inform AUASB members of the feedback received in relation to the adoption of ISSA 5000 *General Requirements for Sustainability Assurance Engagements*.

Questions for the Board

Question No.	Question for the Board
Question 1	Do AUASB members agree with the recommendation of the Office of the AUASB in paragraph 10?

Background

2. Refer to **Agenda Item 5.1** for the full background on the AUASB Consultation Paper on *Assurance Over Climate and Other Sustainability Information*. The Consultation Paper included the following questions:

<ol style="list-style-type: none">4. Do you agree that, subject to seeing the final standard, ISSA 5000 should apply to assurance over:<ol style="list-style-type: none">a) For climate disclosures under the Australian reporting framework;<ol style="list-style-type: none">i. Assurance mandated by the final phasing model developed by the AUASB; andii. Any earlier voluntary assurance or adoption of reasonable assurance than mandated by the AUASB's assurance phasing; andb) Voluntary assurance over any other sustainability information in annual or other periodic reports, including climate disclosures that are not required by the final AASB reporting framework.5. Should any parts of ISSA 5000 that may not be relevant to assurance of disclosures under the mandatory climate reporting framework in Australia be identified in guidance in a local pronouncement?6. 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 equivalent of ISSA 5000?
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7. Are there principles and practices considered appropriate in maintaining or improving assurance quality in Australia that may, or do, prevent or impede the application of the proposed equivalent of ISSA 5000, or may conflict with the proposed standard?

3. The Office of the AUASB received 29 written submissions to its Consultation Paper. A high-level analysis of the feedback received from a mix of respondents (primarily firms, professional and industry bodies, preparers, investors and academics) is summarised below.

Adopting ISSA 5000

4. Of the 19 respondents to Question 4(a)(i) and 4(a)(ii), all agree that subject to seeing the final standard, ISSA 5000 should apply to assurance over climate disclosures mandated under the Australian reporting framework and early voluntary assurance. Of the 10 respondents to Question 4(b) all agree that ISSA 5000 should apply to voluntary assurance over any other sustainability information. Similarly, there was support at AUASB roundtables.

Guidance on irrelevant parts of ISSA 5000 for some engagements

5. Of the 14 respondents to Question 5, more than half were of the view that any parts of ISSA 5000 not relevant to assurance of disclosures under the mandatory climate reporting framework in Australia should not be identified in guidance in a local pronouncement. These respondents were of the view that ISSA 5000 will be tailored and fit for purpose and did not think it appropriate to carve out any requirements or application material.
6. Question 5 was not intended to imply that requirements or application material in ISSA 5000 would be carved out. It was intended to merely note which parts of ISSA 5000 would not be relevant in particular circumstances. Examples in the Consultation Paper included:
- (a) pre-acceptance for public sector entities required to be audited by an audit office;
 - (b) guidance on 'double materiality' when not reporting under GRI or a similar framework; and
 - (c) the 'at least as demanding test' where the financial auditor is the auditor of the climate information.
7. The other respondents agreed that it would be appropriate to identify aspects of ISSA 5000 that are not relevant to the Australian reporting framework.

Laws and regulations preventing or impeding application of ISSA 5000

8. One of the 12 respondents to Question 6 raised the conflict with the NGERs assurance requirements under ASAE 3410 and the applicability of the equivalent ISSA 5000 as a legislative instrument in Australia. This feedback was also received at AUASB roundtables. However, we note that the IAASB intends to withdraw ISAE 3410 and for ISSA 5000 to apply for assurance over stand-alone emission data (subject to possible sunseting of ISAE 3410). We will continue to monitor developments in this regard.

Practices and principles preventing or impeding application of ISSA 5000

9. One of the 11 respondents to Question 7 raised concerns with the ability of the financial auditor to undertake the assurance work on the climate-related financial information.

Recommendation of the Office of the AUASB

10. The Office of the AUASB recommends that, subject to review of the final ISSA 5000, AUASB members agree in principle that:
 - (a) ISSA 5000 be adopted in Australia for assurance over climate disclosures under the Australian reporting framework, and for voluntary assurance over any other climate and sustainability information;
 - (b) guidance be provided in a local pronouncement or other document on those parts of ISSA 5000 that are irrelevant for certain assurance engagements; and
 - (c) the Office continues to monitor the IAASB's approach to ISAE 3410 and:
 - (i) consults with the Clean Energy Regulation on the implications and timing of replacing of ASAE 3410 with the equivalent of ISSA 5000; and
 - (ii) brings any relevant developments to the Board before it considers approval of the equivalent to ISSA 5000.



AUASB Agenda Paper

Title:	Sustainability Assurance - Possible Local Pronouncement	Date:	23 May 2024
Office of the AUASB Staff:	Marina Michaelides / Doug Niven	Agenda Item:	5.4

Objective of this Agenda Paper

1. To seek views of AUASB members on the feedback received in relation to the development of a possible local pronouncement to supplement ISSA 5000 under the local reporting framework and what matters should be covered in such a pronouncement.

Questions for the Board

Question No.	Question for the Board
Question 1	Do AUASB members have any comments on the feedback received from stakeholders on the development of a possible local pronouncement?
Question 2	Do AUASB members agree with the recommendation of the Office of the AUASB in paragraph 27?

Background

2. Refer to **Agenda Item 5.1** for the full background on the AUASB Consultation Paper on *Assurance Over Climate and Other Sustainability Information*. The Consultation Paper included the following questions:

8. Should the AUASB develop and issue a local pronouncement to supplement the final ISSA 5000 dealing with assurance matters under the Australian climate and sustainability reporting framework? Please provide your reasons. Do you agree with the reasons for developing a local pronouncement in paragraph 45?
9. Should the AUASB consider covering the matters identified in Attachment 2 in a possible local pronouncement?
10. Are there any matters identified in Attachment 2 that should not be addressed in a possible local pronouncement? Please provide reasons.
11. Are there any matters that should be addressed in a possible local pronouncement in addition to those identified in Attachment 2?
12. To assist the auditor in considering the adequacy of disclosures, should any local pronouncement include material on applying aspects of the reporting framework in addition to that available in sustainability standards and material from other standard setters or regulators? For example, should the auditor be reminded about their obligations under ASA 720 to consider omissions of material non-climate sustainability risks and opportunities in the Operating and Financial Review? If so, should guidance be provided on reporting frameworks that could be referred to in that regard?
13. Should guidance be provided on materials that might be referred to by the auditor in assessing disclosures (e.g. standards on Financed Emissions, Facilitated Emissions and Insurance Associated Emissions at The Global GHG Accounting and Reporting Standard for the Financial Industry)?

14. Should any local pronouncement cover considerations about the impact of climate and sustainability risks and opportunities on recognition, measurement and disclosure in the financial report (e.g. impairment of assets, provisions)?

Matters for Discussion

Feedback in written submissions

3. The Office of the AUASB received 29 written submissions to its Consultation Paper. To assist with the analysis the Office of the AUASB has included the responses to each question in **Agenda Paper 5.1.1**. A high-level analysis of feedback received from a mix of respondents (primarily audit firms, professional and industry bodies, investors, preparers and academics) follows.

Whether to develop a local pronouncement

4. The feedback received was overwhelmingly supportive of the AUASB issuing a pronouncement to supplement the final ISSA 5000 dealing with assurance matters under the Australian climate and sustainability reporting framework.
5. Nineteen of the 20 respondents to Question 8 agreed that the AUASB should develop and issue a local pronouncement to supplement the final ISSA 5000 dealing with assurance matters under the Australian climate and sustainability reporting framework.

Building on ISSA 5000

6. Respondents agreed that:
 - (a) The AUASB should adopt ISSA 5000 in full as clearly stated in paragraph 30 of the Consultation Paper (see Agenda Paper 5.3);
 - (b) The local material should build on ISSA 5000 (paragraph 43 of the Consultation Paper);
 - (c) The local material should not duplicate or be inconsistent with ISSA 5000 (see paragraph 49 of the Consultation Paper); and
 - (d) that any local material drafted may need to be revised for relevant changes in the legislation, AASB reporting requirements, ISSB guidance and ISSA 5000 before they are finalised (paragraph 49 of the Consultation Paper).
7. Some respondents agreed that we should have regard to the work currently being undertaken on ISSA 5000 as listed in paragraph 50 of the Consultation Paper. No respondents disagreed.

Timing

8. No respondents raised concerns with the aim to issue the local material by the end of 2024 (see paragraphs 53 to 57 of the Consultation Paper on timing). The strong support for the local material to supplement ISSA 5000 implicitly supported the timing. ACAG noted the importance of finalising and issuing local material before reasonable assurance is mandatory.

9. Some respondents agreed that the local material could not be issued until after ISSA 5000 is issued in September 2024 (see paragraph 54 of the Consultation Paper). No respondents disagreed.

Matters in Attachment 2 to the Consultation Paper

10. All of the 13 respondents to Question 9 agreed to the AUASB considering the matters identified in Attachment 2 in a possible local pronouncement.
11. Some of the key areas that respondents felt the AUASB could focus on as priorities were:
- Differences in scope of work for Limited and Reasonable climate assurance engagements and documentation by preparers;
 - What level of work/analysis is required by auditors and preparers to support applying the "no material risks or opportunities" exemption;
 - The practitioner's work effort on the entity's materiality process and identified disclosures in the pre-acceptance phase;
 - The approach for group engagements and consolidated information; and
 - Fraud and professional scepticism.
12. Eight of the 9 respondents to Question 10 (including audit firms and the joint accounting bodies) agreed that all the matters in Attachment 2 should be addressed in a local pronouncement by the AUASB. The other respondent agreed with the vast majority of the matters in Attachment 2 but raised questions on a small number of specific matters.

Additional matters to those in Attachment 2

13. Nine respondents to Question 11 identified matters to be addressed in addition to those identified in Attachment 2, such as:
- scoping assessments
 - challenges around planning and executing Group engagements
 - expanded guidance in the value chains area
 - differences in work effort for Limited vs Reasonable climate assurance engagements (difficulties of applying RA to Scope 3 emissions) and
 - work effort for the auditor on Group 3 entity exemption on the basis of "no material climate risks and opportunities".

Reporting framework matters

14. The majority of the 9 respondents to Question 12 were of the view that a local pronouncement should include material on applying aspects of the reporting framework in addition to that available in sustainability standards and material from other standard setters. They also expressed the view that the AUASB should provide guidance on the linkages between the sustainability report and other sections of the annual report.
15. The majority of the 9 respondents to Question 13 were of the view that guidance should be provided on materials that might be referred to by the auditor in assessing disclosures (e.g. standards on Financed Emissions, Facilitated Emissions and Insurance-Associated Emissions at The Global GHG Accounting and Reporting Standard for the Financial Industry). This would be useful to the auditor of climate-related disclosures to assist in

uplifting capability and promote consistency across practitioners in the early years. The issue will be keeping the reference materials current and up to date as practice evolves.

Audit of the financial report

16. Seven of the 10 respondents to Question 14 agreed that any local pronouncement should cover assurance considerations about the impact of climate and sustainability risks and opportunities on recognition, measurement and disclosure in the financial report (e.g. impairment of assets and provisions). One respondent said they saw no need for guidance but gave no reasons.
17. Two respondents read the question to concern the development of reporting standards rather than dealing with assurance matters, which was not the intention of the question.

Requirements vs guidance

18. Paragraph 51 of the Consultation Paper said:

‘A pronouncement can contain standards, guidance or both. It is too early for the AUASB to determine whether the matters that may be covered in a local pronouncement would be covered by standards, guidance or both. When developing any exposure draft for further public consultation, the AUASB would assess to what extent material in a local pronouncement might need to be standards and what would be better included as application material or guidance.’
19. Five practitioner responses favoured or appeared to favour guidance over requirements. Reasons given were:
 - (a) It would be more timely to develop guidance (3 responses);
 - (b) To avoid enforceability but also for flexibility/timeliness (1 response); and
 - (c) To avoid amending ISSA 5000 (1 response) – this is consistent with our Consultation Paper.
20. Other respondents did not provide comments on this aspect.

Other matters

21. Some respondents noted that the AASB, AICD and CA ANZ should develop reporting guidance for preparers, directors and investors.

Feedback received at roundtables and other forums

22. Feedback at AUASB roundtables and other forums supported the development of a local pronouncement.
23. Some of the Big 4 audit firm representatives expressed a strong preference for guidance over requirements. Any local pronouncement should prioritise matters unique to Australia.
24. There was support for providing clarity on whether assurance covers only the completeness and accuracy of disclosures or also covers the effectiveness of governance and strategy.
25. Some examples of areas to be addressed are auditor and expert competency, difference in work effort for limited versus reasonable assurance, and example audit reports.

26. Other areas raised for local material were:

- (a) *Signing the audit reports*: Whether two different partners within a firm could sign the audit report on the financial report and the audit report on the climate information, and the implications of doing so including possible unintended consequences (e.g. more partners to rotate, two auditor independence declarations).
- (b) *Group 3 entities with no material risks or opportunities*: The need for material on the scope of work required by preparers and auditors for entities who disclose they do not have any material climate related risks or opportunities.
- (c) *Other information*: Material on the auditor's 'other information' responsibilities.

Recommendation of the Office of the AUASB

27. The Office of the AUASB recommends:

- (a) drafting local material for the matters identified in the Consultation paper and by respondents for consultation through an exposure draft;
- (b) during that work:
 - (i) considering whether to develop guidance or standards having regard to the fact that FAQs can be produced much more quickly than standards but are substantially less authoritative;
 - (ii) taking care not to be seen to create new reporting guidance; and
- (c) aiming to issue local material after ISSA 5000 is issued but before the end of 2024.



AUASB Agenda Paper

Title:	AUASB Sustainability Assurance Consultation Paper - Other Matters	Date:	23 May 2024
Office of the AUASB Staff:	Anne Waters / See Wen Ewe	Agenda Paper No:	5.5

Objective of this Agenda Paper

1. To inform AUASB members of the feedback received in relation to Part IV – Other Matters of the AUASB Consultation Paper on *Assurance over Climate and Other Sustainability Information*.

Questions for the Board

Question No.	Question for the Board
Question 1	Do AUASB members agree with the recommendation of the Office of the AUASB in paragraph 8?

Background

2. Refer to Agenda Item 5.1 for the full background on the AUASB Consultation Paper on *Assurance Over Climate and Other Sustainability Information*. The Consultation Paper included the following questions:

<p>15. The Clean Energy Regulator (CER) has assurance requirements for some of the entities that will be covered by the climate reporting requirements under the Corporations Act. These include obtaining external assurance on Scope 1 and 2 emission intensity determination pursuant to section 17 of the Safeguard Mechanism Rule. Are there any aspects of the CER's current reporting and assurance regime that the AUASB should consider when developing pronouncements on assurance over climate-related financial disclosures and other sustainability information?</p> <p>16. Some entities that will be subject to the mandatory proposed climate reporting requirements have cross-border activities or operations. Are there any international factors that the AUASB should consider when developing its proposed pronouncements relating to assurance over climate-related financial disclosures and other sustainability information?</p> <p>17. Do you have suggestions on any other matters that the AUASB should consider in relation to assurance over climate-related financial disclosures and sustainability reports?</p>

3. The Office of the AUASB received 29 written submissions to its Consultation Paper. A high-level analysis of the feedback received on questions 15 to 17 from a mix of respondents (primarily firms, professional and industry bodies, preparers, investors and academics) is summarised below.

CER assurance requirements

4. The 11 respondents that answered Question 15 were of the view that the AUASB should consider the assurance requirements for Scope 1 and 2 emissions under the Safeguard Mechanism Rule regulated by the CER and address or provide guidance on:
 - (a) Different materiality lenses for CER and Corporations Act reporting (We may highlight this in any local material supplementing ISSA 5000);
 - (b) There are different bases for determining emissions under the NGERs and AASB Exposure Draft (This is covered in Attachment 2 to the AUASB Consultation Paper);
 - (c) The need to align reporting dates for NGERs and Corporations Act reporting (This is not a matter within the AUASB's remit);
 - (d) Clarification on the application of ASAE 3410 and ISSA 5000 (This is covered in Agenda Paper 5.4); and
 - (e) Clarification and guidance around matters to consider if using the work of a registered CER auditor (We will consider guidance, subject to changes to ISSA 5000 on the use of experts).
5. Respondents also raised concerns with aspects of the AASB Exposure Draft and legislation which are well-known and not within the remit of the AUASB.

International factors

6. Most of those who responded to Question 16 suggested that the AUASB needs to work to create greater alignment in the reporting requirements between countries. This is not a matter for the AUASB. One respondent confirmed their support for the AUASB proposal to adopt ISSA 5000 in full, which is the subject of covered in Agenda Papers 5.3.

Other matters

7. About two thirds of the 14 respondents that answered Question 17 provided further comments for AUASB's consideration. The other respondents had no further comments. Further comments for consideration include the following broad topics:

No.	Comment	Proposed response
1	Audited entities will need to consider whether the full board or the audit committee is responsible for the oversight of climate related and other sustainability risks and disclosures and related internal controls and procedures. Boards could also discuss climate risks with external auditors.	The entity's processes are not a matter for the AUASB. Auditors will be discussing climate risks with the entities as a part of their work given that the identification and disclosure of climate-related financial risks and opportunities is a key part element in the AASB's Exposure Draft. We will consider guidance on how directors and audit committees can support audit quality by reference to ASIC's <i>Information Sheet 196 Audit quality – The role of directors and audit committees</i> .
2	AUASB to keep the dialogue and consultation channels with stakeholders open to ensure consistent application and implementation	There will be further consultation through the proposed exposure draft and there will be an education and implementation program from 2025.

AUASB Agenda Paper

No.	Comment	Proposed response
3	Guidance to be provided on the treatment of data provided by third-party vendors used in the development of quantitative sustainability disclosures	Further guidance on use of third-party data providers for Scope 3 emissions proposed in Attachment 2 to AUASB Consultation Paper for a local pronouncement. We will consider the impact for other disclosures (e.g. assumptions for scenario analysis).
4	Avoid the assumption that all NGERs reports have had their reports subject to assurance as NGERs assurance is currently on a voluntary basis.	In developing the assurance phasing model, it has not been assumed that all Scope 1 and 2 emissions information reported to the CER has been subject to assurance.
5	Clarification on how the engagement leader decides that the knowledge of the assurance team is sufficient and appropriate	Further guidance on competency and use of experts proposed in Attachment 2 to AUASB Consultation Paper for a local pronouncement, subject to further changes to ISSA 5000.
6	Guidance on materiality	Further guidance on materiality proposed in Attachment 2 to AUASB Consultation Paper for a local pronouncement, subject to further changes to ISSA 5000.
7	Cost vs benefit in the assurance phasing model	<p>The start and end point for the assurance phasing are set in Government policy and legislation. Question 1 of the Consultation Paper asked for feedback on whether limited or reasonable assurance should be earlier or later than the possible assurance model attached to the Consultation Paper taking into account the relative importance of disclosure items and the cost of assurance.</p> <p>As part of the process of making a force of law standard, a Regulatory Impact Assessment will be prepared and consulted with the Office of Impact Analysis. Refer to Agenda Item 5.6 for further discussion.</p>
8	Financial auditors may not be climate competent	<p>Further guidance on competency proposed in Attachment 2 to AUASB Consultation Paper for a local pronouncement, subject to further changes to ISSA 5000.</p> <p>We will continue to send messages on preparedness and upskilling through presentations and outreach.</p>
9	Consider Climate Active verification requirements	Businesses can seek certification by a Climate Active consultant that they are carbon neutral. Such certifications are currently outside the scope of our work on assurance over reporting of sustainability information in annual reports.

Recommendation of the Office of the AUASB

8. It is recommended that the Board agree with proceeding as outlined in this paper. In particular, see agenda papers 5.2 and 5.3 for relevant recommendations on the assurance phasing model and the possible local pronouncement.



AUASB Agenda Paper

Title:	AUASB Sustainability Assurance Consultation Paper – Next Steps and Other Considerations	Date:	23 May 2024
Office of the AUASB Staff:	Anne Waters / Doug Niven	Agenda Paper No:	5.6

Objective of this Agenda Paper

1. To highlight to AUASB members the proposed next steps and discuss other considerations arising from the AUASB’s [Consultation Paper Assurance over Climate and Other Sustainability Information \(CP\)](#) and related outreach activities.

Questions for the Board

Question No.	Question for AUASB members
Question 1	Do AUASB members have any suggestions on the possibility of a Project Advisory Group or Advisory Panel to cover assurance over sustainability information matters?
Question 2	Do members consider that additional data or information may assist in developing the AUASB’s possible pronouncements on assurance over climate and other sustainability information?

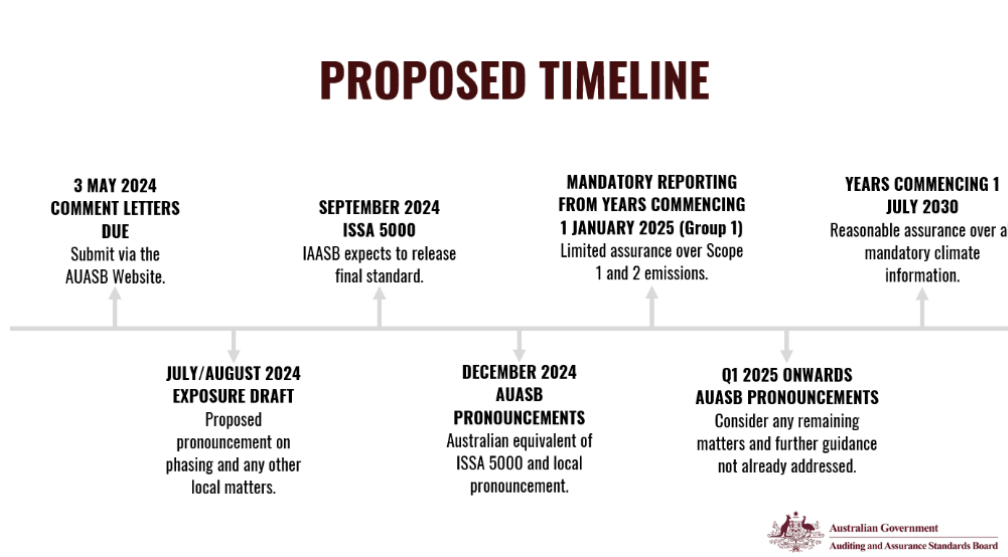
Background

2. The AUASB has been provided with a summary and analysis of the key findings for each part of the CP in previous agenda items and recommendations (Refer to **Agenda Items 5.2 – 5.4**). Following on from these summaries, the Office of the AUASB proposed several actions to address following the May 2024 AUASB Board meeting, which are presented below.
3. Additionally, there are some other matters relating to the AUASB’s proposed response to the CP and the probable due process associated with the development of any AUASB pronouncements relating to Sustainability Assurance that the Office of the AUASB is seeking AUASB feedback on the outline below.

Assurance over climate and other sustainability information – Possible/Probable Next Steps

Proposed Timetable

4. The CP outlined the proposed timeframe for developing any AUASB pronouncements on assurance over climate and other sustainability information. This proposed timeframe is presented in detail in the diagram below.



5. Specifically, the CP noted that the AUASB aims to issue final pronouncements in December 2024 after the planned release of the final ISSA 5000 by the IAASB in September 2024, the passage of legislation, and the release of final reporting standards by the AASB. Indeed, there remain uncertainties with the potential amendment and passage of the relevant legislation, the finalisation of the AASB’s Sustainability and Climate Reporting standards (including any voluntary general sustainability standard), and possible amendments to the content of the final version of ISSA 5000 once released.
6. Whilst several submissions to the AUASB commented on the proposed implementation timeline for any AUASB pronouncements and that any AUASB pronouncements need to reflect any final reporting or regulatory requirements released by The Treasury and the AASB, no respondents to the CP gave any feedback in respect of the AUASB’s own proposed development timeline.

We will revert to AUASB members should we identify the need for additional Board meetings.

Additional AUASB Board Meetings may be required

7. The proposed timeline for developing the AUASB’s pronouncements on assurance over climate and other sustainability information is ambitious. It will require the Office of the AUASB to dedicate significant resources to this matter over the rest of the 2024 year. Currently, the scheduled dates for AUASB Meetings over the rest of 2024 are:
- 13 June (Half day, via videoconference, including IAASB agenda items)
 - 16 & 17 July (in person, Melbourne)
 - 6 August (Half day, via videoconference)
 - 10 September (in person, Melbourne, including IAASB agenda items)
 - 19 & 20 November (in person, Melbourne)
 - 2 December (Half day, via videoconference, including IAASB agenda items)

8. To achieve the proposed timetable above and ensure staff can progress the development of any proposed pronouncements effectively it is likely additional AUASB Board meetings will be necessary to respond to technical issues and review the ongoing development of the AUASB's pronouncements ahead of the proposed timeline to develop our AUASB exposure drafts by July/August 2024.
9. Recognising AUASB Members have other primary roles, flexibility may be needed in scheduling and conducting additional meetings over this period. Whilst the number and nature of any additional meetings are yet to be determined, it is likely the Office of the AUASB will look to schedule shorter, more frequent meetings to forward its standard-setting activities using online tools rather than schedule additional face-to-face meetings.

We will revert to AUASB members should we identify the need for additional Board meetings.

AUASB Due Process and Regulatory Impact

10. Whilst all activities associated with the development of any proposed AUASB pronouncements need to be performed in accordance with the [AUASB Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements](#) (AUASB Due Process), there may be some flexibility required (e.g., reduced exposure periods) to ensure the intended timeline is met.
11. Whilst the final form of any AUASB Pronouncements on assurance over climate and other sustainability information is still to be determined (e.g. standards or guidance) the AUASB Due Process provides direction for AUASB Members and the Office of the AUASB to determine the type of pronouncement that should be issued (see Paragraphs 24 - 34), the process when developing standards based on Equivalent International Standards issued by the IAASB, which will be the case for any Australian equivalent of ISSA 5000 (refer Paragraphs 88 – 138) and the process for developing a Domestic AUASB Standard (refer Paragraphs 139 – 173).
12. Commonwealth regulations and the AUASB Due Process also require that, before a final AUASB pronouncement is issued, where the pronouncement is likely to have a substantive impact on business or the community, Office of the AUASB staff is required to consult with the Office of Impact Analysis (OIA) to determine of a Regulation Impact Statement (RIS) may be necessary. Generally, the issuance of new or revised AUASB Pronouncements does not require a RIS to be undertaken, however, the breadth and scope of any new Sustainability Assurance requirements may make this necessary, and this will need to be factored into the Office of the AUASB resource requirements and timeline.

Possible Sustainability Assurance Project Advisory Group/Panel

13. The possibility of creating an AUASB Project Advisory Group or Advisory Panel to cover Sustainability Assurance matters, or any proposed AUASB pronouncement on Sustainability was discussed initially at the February 2024 AUASB Meeting. At the time, board members had mixed views on this concept, including the composition. No conclusion was reached.
14. A Project Advisory Group (PAG) is a temporary working group appointed for AUASB topics requiring specialist practitioner and/or industry input. A PAG's primary objective is to provide the AUASB with expertise and advice on a specialised topic, and assist technical staff on the development of AUASB pronouncements and guidance. Guidance covering the establishment and operation of AUASB PAGs is contained in paragraphs 60 – 63 of the [AUASB Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements](#).
15. A PAG could provide access to individuals with expertise in this area. However, it also adds an administrative and logistical burden, which may negatively impact the timeline above.

AUASB Agenda Paper

16. An alternative would be informal consultation on matters and drafts with appropriate stakeholder and experts. This approach does not require the same formality and process, allows stakeholders and experts greater flexibility on the extent of their participation, and would have less impact on the timeline above.
17. A separate panel or advisory group may:
 - be a subcommittee of the Board;
 - contain external representatives from key stakeholders;
 - provide general advice or it may provide oversight of staff;
 - provide views or be directly involved in the drafting of possible pronouncements.
18. While the decision lies with the Chair, member views would be appreciated.

Question 1: Do AUASB members have any suggestions on the possibility of a Project Advisory Group or Advisory Panel to cover assurance on sustainability information matters?

Additional information-gathering and outreach activities

19. Further clarification will be sought on some matters raised in some of the submissions on the CP. This will not affect the recommendations in **Agenda Items 5.2 – 5.5**.
20. Data obtained from various sources on the size and nature of entities that are required to obtain assurance over mandatory climate disclosures is not complete and not all of the largest six firms provided information on entities in Groups 1 and 2 that they audit. We will attempt to obtain further information to better inform the proposed phasing of assurance and assist with any cost/benefit analysis.
21. We will also further engage with mid-tier audit firms, ASIC and the Clean Energy Regulator.
22. There will be public consultation and outreach on the proposed exposure draft.

Question 2: Do members consider that additional data or information may assist in developing the AUASB's possible pronouncements on assurance over climate and other sustainability information?



AUASB Agenda Paper

Title:	Narrow Scope Revision of ASAE 3500 <i>Performance Engagements</i> – AUASB Approval of Exposure Draft	Date:	12 April 2024
PAG Chair	Julie Crisp (Auditor-General Northern Territory)		
Office of the AUASB Staff:	Johanna Foyster	Agenda Item:	6.0

Objective of this Agenda Paper

- The objective of this Agenda Item is to seek approval from AUASB members to issue an Exposure Draft of a Proposed Revised Standard on Assurance Engagements ASAE 3500 *Performance Engagements* (draft ED 01/24) for a 60-day comment period.

Questions for AUASB members

Question No.	Question for the Board
Question 1	Do AUASB members have any comments on, or questions about, draft ED 01/24 [see Agenda Item 6.1 (clean version) and Agenda Item 6.3 (marked up version)]?
Question 2	Do AUASB members have any comments on, or questions about, the draft of the Explanatory Memorandum that would accompany ED 01/24 [see Agenda Item 6.2]?
Question 3	Do AUASB members approve, by way of formal vote, the issuance of ED 01/24 for a 60-day comment period?

Background and Previous Discussions on Topic

- It is proposed that the AUASB make narrow scope¹ amendments to Standard on Assurance Engagements [ASAE 3500 Performance Engagements](#) (ASAE 3500) to address the key findings from the AUASB’s [Post Implementation Review](#) of the Standard undertaken in 2023.
- The AUASB received updates on the status of the project at its September 2023 meeting (see Agenda Item 12 of the [September 2023 meeting papers](#)) and March 2024 meeting (verbal update).
- The Office of the AUASB, in consultation with an AUASB Project Advisory Group (see below), has developed an Exposure Draft, ED 01/24 *Proposed Revised Standard on Assurance Engagements ASAE 3500 Performance Engagements* (draft ED 01/24) [see Agenda Item 6.1 (clean version) and Agenda Item 6.3 (marked up version)].
- The draft of the Explanatory Memorandum that would accompany the public release of ED 01/24, provides background on the project and an explanation of ED 01/24 (see Agenda Item 6.2).
- The substantive changes to the extant ASAE 3500 are listed in paragraphs 18(a) to 18(d) of the draft of the Explanatory Memorandum and summarised in Appendix 1 of the draft Explanatory

¹ The AUASB has adopted a simplified due process for addressing changes to existing standards that are considered to be narrow in scope — refer to paragraphs 176-197 of the AUASB [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#).

Memorandum. The marked up version of the draft ED 01/24 also includes other revisions that are not considered substantive.

Project Advisory Group

7. A Project Advisory Group (PAG), consisting of 9 members representing each public sector audit office in Australia (see Appendix 1), is assisting the Office of the AUASB with the revision. The PAG is chaired by the AUASB Deputy Chair, Julie Crisp, who is also the current Northern Territory Auditor-General.
8. The PAG met in August 2023 to discuss an Issues Paper prepared by the Office of the AUASB, which outlined the proposed narrow scope revisions to the Standard and identified specific matters where the PAG's input would be required. The PAG met on two further occasions in September 2023 and March 2024 to consider and provide feedback on aspects/drafts of the proposed revised Standard. PAG members also provided input to the development of the revised Standard in response to specific Requests for Information from the Office of the AUASB.
9. A final draft of ED 01/24 was shared with the PAG on 8 April 2024 for a fatal flaw review. All PAG members supported the amendments in the final draft and did not raise any fatal flaw issues.

Collaboration with NZAuASB

10. Not applicable, as the NZAuASB does not have an equivalent Standard on the topic of Performance Engagements. In New Zealand, Standards for Performance Engagements are set by the Office of the Auditor-General New Zealand, not the NZAuASB.
11. NZAuASB has recently issued a revised standard on the audit of Service Performance Information (SPI),² and is currently developing a standard that will deal with engagements to review SPI (limited assurance). These standards deal solely with attestation engagements (i.e. where management measures or evaluates the subject matter against criteria), which are different from direct engagements (i.e. where the assurance provider evaluates the subject matter against applicable criteria) to provide an assurance report on an activity's performance.

Next steps/Way Forward

12. Update draft ED 01/24 and accompanying draft Explanatory Memorandum to address AUASB member feedback, if any, from the May 2024 AUASB meeting.
13. Issue ED 01/24 publicly for a 60-day comment period. The AUASB's Due Process Framework³ stipulates a 90-day comment period for new, and comprehensively revised, domestic standards but allows for the AUASB to approve a shorter period in certain circumstances, for example, where revisions are narrow in scope or urgent. The Office of the AUASB considers a 60-day comment period to be sufficient, considering that the major practitioners are represented on the PAG and have provided input to the development of the narrow scope amendments. If the AUASB agrees with a 60-day comment period, ED 01/24 could be issued publicly by end of May 2024, with comments due by 31 July 2024. Adopting a 60-day comment period should leave sufficient time to bring a final Revised Standard to the September 2024 AUASB meeting.
14. Subject to feedback received from stakeholders, present the final Revised ASAE 3500, together with supporting board papers which will include a draft Basis for Conclusions and Analysis and Disposition of Stakeholder Feedback, at the September 2024 AUASB meeting for approval to issue.

² See [NZ AS 1 \(Revised\) The Audit of Service Performance Information](#).

³ See [AUASB Due Process Framework](#), paragraph 75.

AUASB Agenda Paper

Materials Presented

Agenda Item	Description
6.1	[Draft] Exposure Draft — ED 01/24 <i>Proposed Revised Standard on Assurance Engagements ASAE 3500 Performance Engagements</i> [CLEAN VERSION]
6.2	[Draft] Explanatory Memorandum — ED 01/24 <i>Proposed Revised Standard on Assurance Engagements ASAE 3500 Performance Engagements</i>
6.3	[Draft] Exposure Draft — ED 01/24 <i>Proposed Revised Standard on Assurance Engagements ASAE 3500 Performance Engagements</i> [MARKED UP VERSION]

Appendix 1

Membership of the Project Advisory Group (PAG) for the Narrow Scope Revision of ASAE 3500

Auditor-General's Office	PAG Representative
Northern Territory Auditor-General's Office	Julie Crisp (PAG Chair and Auditor-General of NT)
Australian National Audit Office	Ingrid Wilkins
ACT Audit Office	Matt Bowden
Audit Office of NSW	Michael Thistlethwaite
Auditor-General's Department of South Australia	Kris Slaytor
Office of the Auditor-General for Western Australia	Jason Beeley
Queensland Audit Office	Charles Strickland
Tasmanian Audit Office	Janine McGuinness
Victorian Auditor-General's Office	Alex Cullen

EXPOSURE DRAFT

ED 01/24
(May 2024)

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

Comments Due: **XX** July/August 2024 (60-day comment period)

Issued for Comment by the Auditing and Assurance Standards Board

Draft



Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

Comments on this Exposure Draft should be received by no later than XX 2024.

Comments should be addressed to:

The Chairman
Auditing and Assurance Standards Board
PO Box 204, Collins Street West
Melbourne Victoria 8007 AUSTRALIA

Formal Submissions

Submissions should be lodged online via the “Projects-Open for Comment” page of the Auditing and Assurance Standards Board (AUASB) website ([augasb.gov.au/projects/Open-for-comment](https://www.augasb.gov.au/projects/Open-for-comment)) as a PDF document and Word document.

A copy of all non-confidential submissions will be placed on public record on the AUASB website: www.augasb.gov.au/

Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: www.augasb.gov.au/

Contact Details

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Appendix 1: The nature of a Performance Engagement

Appendix 2: Example of a Performance Engagement

Appendix 3: Roles and Responsibilities – Performance Engagements Initiated by an Auditor-General

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Draft

PREFACE

Reasons for Issuing ED 01/24

The AUASB issues Exposure Draft ED 01/24 of proposed Revised Standard on Assurance Engagements ASAE 3500 *Performance Engagements* (proposed Revised ASAE 3500) pursuant to the requirements of the legislative provisions explained below.

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

Main Proposals

Standard on Assurance Engagements ASAE 3500 *Performance Engagements* establishes requirements and provides application and other explanatory material regarding the conduct of and reporting on a direct performance engagement.

The AUASB has undertaken a narrow scope revision of the existing Standard on Assurance Engagements ASAE 3500 *Performance Engagements* (revised October 2017, updated December 2022) (existing ASAE 3500) to address the key findings from the AUASB's Post Implementation Review of the Standard undertaken in 2023.

The AUASB is proposing to replace the existing ASAE 3500 with the proposed Revised ASAE 3500.

Refer to the Explanatory Memorandum accompanying ED 01/24 for:

- (a) background information on ED 01/24;
- (b) an explanation of the proposed changes to existing ASAE 3500; and
- (c) further information regarding the feedback sought, including Exposure Draft Questions.

Request for Comments

Comments are invited on this Exposure Draft by no later than XX 2024.

AUTHORITY STATEMENT

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

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

Dated: XXX

Doug Niven
Chair - AUASB

Draft

Conformity with International Standards on Assurance Engagements

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

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

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

Draft

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

STANDARD ON ASSURANCE ENGAGEMENTS ASAE 3500

Performance Engagements

Application

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

Operative Date

2. This ASAE is operative for assurance engagements commencing on or after XXX.

Introduction

Scope of this ASAE

3. This ASAE deals with direct engagements in which an assurance practitioner evaluates a responsible party or parties' performance of an activity (hereafter referred to as an 'activity's performance') against identified criteria and aims to obtain sufficient appropriate evidence to express, in a written direct assurance report, a conclusion to intended users about the outcome of the evaluation. (Ref: Para A1)
4. This ASAE includes requirements and application and other explanatory material for reasonable and limited assurance performance engagements. Unless otherwise stated, each requirement of this ASAE applies to both reasonable and limited assurance engagements. Because the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the assurance practitioner performs in a limited assurance engagement will vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Requirements and Application and Other Explanatory Material that apply only to limited assurance or reasonable assurance engagements have been presented with the letter "L" (limited assurance) or "R" (reasonable assurance) after the paragraph number. Although some procedures are required only for reasonable assurance engagements, they may nonetheless be appropriate in some limited assurance engagements. (Ref: Para A2)
5. This ASAE addresses assurance engagements on performance:
 - (a) of all or part of any activity, whether within an entity or across multiple entities; (Ref: Para A3-A4)
 - (b) evaluated against identified criteria selected or developed by the assurance practitioner or the engaging party; and
 - (c) for either restricted use by the engaging party or specified third parties, or to be publicly available through tabling in Parliament or other means of distribution.
6. Other frequently performed engagements that are not assurance engagements and, therefore, are not covered by this ASAE, include:
 - (a) Agreed-upon procedures engagements², where procedures are conducted and factual findings are reported but no assurance conclusion is provided, and
 - (b) Consulting engagements³, for the purpose of providing advice on performance but no assurance conclusion is provided.

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

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

Nature of a Performance Engagement

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

Relationship with ASAE 3000, Other AUASB Pronouncements and Other Requirements

11. This ASAE adapts the requirements in ASAE 3000⁴, which is written primarily for attestation engagements, as necessary, to direct engagements on performance and identifies the requirements of ASAE 3000 which the assurance practitioner is required to comply with in conducting a performance engagement in addition to the requirements of this ASAE.⁵ The *Framework for Assurance Engagements*, which defines and describes the elements and objectives of an assurance engagement, provides the context for understanding this ASAE and ASAE 3000.
12. This ASAE requires the assurance practitioner to apply the ASAE 3000 requirement to comply with relevant ethical requirements related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. It also requires the Audit Office of an Auditor-General to apply ASQM 1⁶ or the

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

⁵ See ASAE 3000, paragraph 2.

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

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

Objectives of this ASAE

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

Definitions

18. For the purposes of this ASAE, the following terms have the meanings attributed below:
- (a) **Activity**—An aspect of an entity's operations such as the achievement of strategic objectives or legislative requirements or the delivery of a product, service or programme. An activity may be conducted within a single entity or across multiple entities, departments, agencies, joint ventures or other organisations, within a single jurisdiction or across multiple jurisdictions. (Ref: Para A3-A4)
 - (b) **Activity's performance**—The responsible party or parties' performance of the activity being reported on (that is, the subject matter for the performance engagement).
 - (c) **Assurance practitioner**—Individual or firm or other organisation, whether in public practice, industry and commerce or the public sector, providing assurance services including performance engagements.
 - (d) **Attestation engagement**—An assurance engagement in which a party other than the assurance practitioner measures or evaluates the underlying subject matter against the

⁷ ASAE 3100 *Compliance Engagements*.

criteria. A party other than the assurance practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the assurance practitioner in the assurance report. In an attestation engagement, the assurance practitioner's conclusion addresses whether the subject matter information is free from material misstatement.⁸ (Ref: Para A1)

- (e) Criteria—The benchmarks used to evaluate the activity's performance. The "identified criteria" are the criteria used for the particular engagement. (Ref: Para 27)
- (f) Direct engagement on performance—An assurance engagement in which the assurance practitioner obtains sufficient appropriate evidence to evaluate an activity's performance (the subject matter) against identified criteria. The outcome of this evaluation, that is, the resulting subject matter information (for example, the assurance practitioner's analysis and findings) is presented as part of, or accompanying, the assurance report. In a direct engagement, the assurance practitioner's conclusion addresses the reported outcome of the evaluation of the subject matter against the criteria.⁹ (Ref: Para A1)
- (g) Engagement objective (objective of the performance engagement)—States the purpose of the performance engagement. The engagement objective needs to be expressed in a way that makes it possible to conclude against the objective after the engagement has been finalised.¹⁰ (Ref: Para A27-A30)
- (h) Engagement risk—The risk that the assurance practitioner expresses an inappropriate conclusion.¹¹
- (i) Engaging party—The party(ies) that engages the assurance practitioner to perform the assurance engagement. In a performance engagement initiated by an Auditor-General there will not normally be an engaging party as the State, Territory or Federal Parliament provide the mandate for the Auditor-General to conduct performance engagements, but will not usually engage the Auditor-General to perform specific performance engagements.
- (j) Further procedures—Procedures, including tests of controls and substantive procedures, performed to: (Ref: Para 41-46)
 - (i) In a limited assurance engagement, respond to the identified areas where a significant variation in an activity's performance is likely to arise; and
 - (ii) In a reasonable assurance engagement, respond to the risks that may cause significant variations in an activity's performance.
- (k) Intended users—Parliament and the responsible party(ies), as well as organisations, groups or individuals that the assurance practitioner expects will use the assurance report. If the assurance report is publicly available, intended users includes the public.
- (l) Limited assurance engagement—An assurance engagement in which the assurance practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement as the basis for the assurance practitioner's conclusion. The assurance practitioner's conclusion is expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the assurance practitioner's attention to cause the assurance practitioner to believe that the responsible party(ies) did not perform the activity in accordance with the identified

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

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

¹⁰ INTOSAI Guidance GUID 3910, paragraph.35.

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

criteria. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the assurance practitioner's professional judgement, meaningful. To be meaningful, the level of assurance obtained by the assurance practitioner is likely to enhance the intended users' confidence about the activity's performance to a degree that is clearly more than inconsequential. For further information on the nature, timing and extent of procedures in a limited assurance engagement and the concept of 'meaningful assurance', refer to ASAE 3000¹² (Ref: Para A2, A100).

- (m) Performance engagement—An assurance engagement that concludes on all or a part of an activity's performance as evaluated against identified criteria. Performance engagements generally focus on one or more performance principle (see 18(n) below). Performance engagements seek to provide new information, analysis or insights and, where appropriate, recommendations for improvement¹³.
- (n) Performance principle—The specific aspect of performance being evaluated against the engagement objective. Performance engagements generally focus on one or more of the principles of economy, efficiency, effectiveness, and/or ethics; however, may also focus on performance principles such as equity, probity and sustainability, amongst others. (Ref: Para A5)
- (o) Professional scepticism—An attitude that includes a questioning mind, being alert to the validity of evidence obtained and critically assessing evidence that contradicts or brings into question the reliability of information obtained. Information may include data, documents and responses to enquiries.
- (p) Reasonable assurance engagement—An assurance engagement in which the assurance practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the assurance practitioner's conclusion. The assurance practitioner's conclusion is expressed in a form that conveys the assurance practitioner's conclusion on the outcome of the evaluation of the activity's performance against the identified criteria.
- (q) Representation—Statement by the responsible party(ies), either oral or written, provided to the assurance practitioner to confirm certain matters or to support other evidence.
- (r) Responsible party—The party or parties responsible for the performance of all or part of the activity, which is the subject matter of the performance engagement.
- (s) Risk procedures—Procedures designed and performed to: (Ref: Para 36-40)
 - (i) In a limited assurance engagement, identify areas where a significant variation in an activity's performance is likely to arise; and
 - (ii) In a reasonable assurance engagement, identify and assess the risks that may cause significant variations in an activity's performance.
- (t) Significance¹⁴—The relative importance of a matter, within the context in which it is being considered, that could potentially influence the decisions of the intended users of the assurance report. (Ref: Para 31-33)

¹² See ASAE 3000, paragraphs A3-A7.

¹³ INTOSAI Standard ISSAI 300, paragraph 10.

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

- (u) Subject matter—The phenomenon that is measured or evaluated by applying criteria.¹⁵ In the context of a performance engagement the subject matter is the responsible party or parties' performance of an activity as evaluated against the identified criteria.
- (v) Variation—An instance where the actual performance of the activity varies from the identified criteria.

Requirements

Applicability of ASAE 3000

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

Inability to Comply with Relevant Requirements

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

Ethical Requirements

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

Initiation or Acceptance (Ref: Para A7-A22)

23. The assurance practitioner shall initiate, where the assurance practitioner has the legislative mandate to do so, or accept a performance engagement only when:
- (a) the assurance practitioner has no reason to believe that relevant ethical requirements, including independence, will not be satisfied;
 - (b) the assurance practitioner is satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities, including having sufficient time to perform the engagement;

¹⁵ ASAE 3000, paragraph 12(y)

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

- (c) the preconditions for an assurance engagement are present, as required by ASAE 3000;¹⁷ and
- (d) the basis on which the engagement is to be performed has been communicated and, where relevant, agreed by the assurance practitioner:

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

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

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

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

¹⁷ See ASAE 3000, paragraph 24.

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

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

- (e) Understandability—understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.

Quality Management

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

Professional Scepticism, Professional Judgement and Assurance Skills and Techniques

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

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

Planning (Ref: Para A23-A30)

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

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

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

²⁰ See ASAE 3000, paragraphs 31-36.

²¹ See ASAE 3000, paragraphs 37-39.

²² See ASAE 3000, paragraph 40.

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

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

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

Enquiries and Discussion with Appropriate Parties

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

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

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

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

37. The assurance practitioner shall perform risk procedures sufficient to determine whether internal controls are relevant to the engagement objective(s). The extent to which internal controls are relevant depends on the engagement circumstances and the level of assurance required, and is a matter of professional judgement.
38. The assurance practitioner shall obtain an understanding of internal controls the practitioner considers are relevant to the evaluation of the activity’s performance against the identified criteria. This understanding shall include identifying controls designed to address (mitigate) the risk of significant variation from the identified criteria.
39. For controls over which the assurance practitioner plans to obtain evidence by testing their operating effectiveness, the practitioner’s understanding shall include:

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- (a) Evaluating whether the control is designed effectively to address the risk of significant variation or designed effectively to support the operation of other relevant controls; and
- (b) If designed effectively, determining whether the control has been implemented by performing procedures in addition to enquiry of the responsible party.

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

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

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

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

Revision of Risk Assessment in a Reasonable Assurance Engagement

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

Performing Modified and/or Additional Procedures in a Limited Assurance Engagement

(Ref: Para A89-A91)

- 43L. If the assurance practitioner becomes aware of a matter that causes the practitioner to believe that a significant variation in the activity's performance may exist, the practitioner shall design and perform modified and/or additional procedures to obtain further evidence until the practitioner is able to form a conclusion that either:
- (a) the matter is not likely to result in a significant variation in the activity's performance; or
 - (b) a significant variation in the activity's performance exists.

Work Performed by an Assurance Practitioner's Expert

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

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

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

Written Representations (Ref: Para A92-A94)

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

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

47. The assurance practitioner shall evaluate whether the identified variations in the activity's performance are significant, individually or in combination. The assurance practitioner shall consider the size and severity of the impact or potential impact of those variations and conclude whether the activity was partially performed or not performed as evaluated against the identified criteria.²⁵
48. In making this evaluation, the assurance practitioner shall consider whether individual variations in performance identified during the engagement (other than those that are clearly trivial) have characteristics, for example, a root cause or a systemic issue, that indicate the combined effect of individual variations is likely to be significant.

Subsequent Events (Ref: Para A96-A97)

49. When relevant to the performance engagement, the assurance practitioner shall consider the effect on the activity's performance of events that become known to the assurance practitioner up to the date of the assurance report. The practitioner shall respond appropriately to facts that become known to the assurance practitioner after the date of the assurance report that, had

²³ See ASAE 3000, paragraph 52.

²⁴ See ASAE 3000, paragraphs 53-55.

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

they been known to the assurance practitioner at that date, may have caused the assurance practitioner to amend the assurance report. The extent of consideration of subsequent events depends on the assurance practitioners' judgement of the potential for such events to affect the activity's performance and to affect the appropriateness of the assurance practitioner's conclusion. However, the assurance practitioner has no responsibility to perform any procedures regarding the activity's performance after the date of the assurance report.

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

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

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

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

Assurance Report Content (Ref: Para A104-A121)

55. The assurance report shall include at a minimum the following elements, to the extent that it is not inconsistent with relevant legislation or regulation:
 - (a) A title or title page, indicating that it is an independent assurance report.
 - (b) An addressee.
 - (c) Identification of the scope of the performance engagement including:
 - (i) the activity's performance which was the subject matter of the performance engagement; (Ref: Para 18(b))
 - (ii) the engagement objective(s); (Ref: Para 18(g))
 - (iii) the criteria for evaluating the activity's performance, and their sources; (Ref: Para 18(e), 27, A111)
 - (iv) if relevant, the date of, or period(s) covered by, the report;

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

- (v) any activities the assurance practitioner has specifically excluded from the scope; and
- (vi) if appropriate, a description of any significant inherent limitations associated with the evaluation of the activity's performance against the identified criteria;
- (d) Identification or description of the level of assurance obtained/provided by the assurance practitioner. (Ref: Para A115)
- (e) Identification of the responsible party(ies) and a description of their responsibilities. (Ref: Para 18(r))
- (f) The assurance practitioner's conclusion(s) against the engagement objective(s) which: (Ref: Para A98, A114-A118)
 - (i) in a reasonable assurance engagement, shall be expressed in a positive form.
 - (ii) in a limited assurance engagement, shall be expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the assurance practitioner's attention to cause the practitioner to believe that the responsible party did not perform the activity in accordance with the identified criteria.
- (g) When the assurance practitioner was unable to obtain sufficient appropriate evidence (a scope limitation exists), the assurance report shall contain: (Ref: Para 58-59)
 - (i) A description of the causes and consequences of those findings; and (Ref: Para A112-A113)
 - (ii) The assurance practitioner's conclusion that there was not sufficient or appropriate evidence to conclude on the responsible party's performance of:
 - a. certain aspects of the activity; or (Ref: Para A116(a))
 - b. the activity as a whole. (Ref: Para A116(b))
- (h) When the assurance practitioner has identified significant variations in the activity's performance, the assurance report shall contain:
 - (i) A description of the causes and consequences of those findings; and (Ref: Para A112-A113)
 - (ii) The assurance practitioner's conclusion that either the responsible party:
 - a. did not perform the activity in accordance with the identified criteria in certain significant respects; or (Ref: Para A117(a))
 - b. did not perform the activity in accordance with the identified criteria in all significant respects. (Ref: Para A117(b))
- (i) The basis for the assurance practitioner's conclusion, including: (Ref: Para A119-A120)
 - (i) A statement that the engagement was conducted in accordance with ASAE 3500 *Performance Engagements*; (Ref: Para A119)
 - (ii) An informative summary of the work performed by the practitioner as the basis for the practitioner's conclusion. In the case of a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential to understanding the practitioner's conclusion. For a limited assurance engagement, the summary of the work performed shall state that: (Ref: Para A100, A120)

- a. The procedures performed in a limited assurance engagement vary in nature and timing from, and are lesser in extent than for, a reasonable assurance engagement; and
 - b. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed;
- (iii) A statement that identifies the assurance practitioner's responsibilities or refers to a section in the assurance report that describes the practitioner's responsibilities.*
 - (iv) A statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.*

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

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

Scope Limitation (Ref: Para 55(g))

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

Other Communication Responsibilities

60. If, during the course of the performance engagement, the assurance practitioner identifies any significant variations in the activity's performance, the assurance practitioner shall report those variations to the responsible party on a timely basis in order to allow the responsible party sufficient time to investigate and respond to the identified variations.
61. The assurance practitioner shall consider whether, pursuant to the terms of the performance engagement, if applicable, and other engagement circumstances or legislative requirements, any matter has come to the attention of the assurance practitioner that is to be communicated

with Parliament, the responsible party, the engaging party (if applicable) or others, as required by ASAE 3000.²⁷

62. The assurance practitioner shall determine whether there is a responsibility or legislative requirement for the assurance practitioner to report the occurrence or suspicion of fraud or other misconduct to a party outside the entity, including Parliament, a regulator or government agency. Any such reporting shall be in accordance with the relevant legislation.

Documentation (Ref: Para A122-A123)

63. The assurance practitioner shall prepare documentation in accordance with ASAE 3000.²⁸ In documenting the nature, timing and extent of procedures performed as required by ASAE 3000, the assurance practitioner shall record:

- (a) the identifying characteristics of the activity's performance being tested;
- (b) who performed the work and the date such work was completed; and
- (c) who reviewed the work performed and the date such review was performed.

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²⁷ See ASAE 3000, paragraph 78.

²⁸ See ASAE 3000, paragraphs 79-83.

Application and Other Explanatory Material

Introduction (Ref: Para 3-16)

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

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

Definitions

Performance Principle (Ref: Para 18(n))

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

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

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

³⁰ Based on Macquarie Dictionary definition of 'equity'.

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

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

Ethical Requirements (Ref: Para 22)

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

Initiation or Acceptance (Ref: Para 23-27)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- more information on the subject matter is gathered; and

- the assurance practitioner better understands the needs of the intended users.

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

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

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

- A23. In the public sector, Auditors-General regularly receive topic suggestions for performance engagements from members of Parliament, executive government and the public. Auditors-General may also select topics that align with government policy objectives and reform agendas to assess progress and impacts. Auditors-General ordinarily adopt a strategic

and risk-based approach to selecting performance engagement topics that are significant and auditable, and consistent with their legislative mandate. Once an Auditor-General has selected an engagement topic, the assurance practitioner plans the performance engagement.

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

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

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

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

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

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

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

³³ See INTOSAI Standard ISSAI 300, paragraph 25.

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

*Significance*³⁴ (Ref Para 31-33)

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

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

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

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

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

Consideration of significance when selecting activities to examine

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

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

Significance in planning and performing the engagement

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

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

Significance in formulating and reporting findings, conclusions and recommendations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(d) Inspection.

- A64L. In a limited assurance engagement, identifying the areas where a significant variation in the activity's performance is likely to arise enables the assurance practitioner to focus procedures on those areas. Risk procedures for a limited assurance engagement would ordinarily be limited to enquiries of appropriate parties, analytical procedures and necessary documentation review. However, there may be circumstances where the assurance practitioner may consider it effective or efficient to design and perform other procedures.
- A65L. In rare circumstances, the assurance practitioner's risk procedures may not identify any areas where a significant variation is likely to arise. Irrespective of whether any such areas have been identified, the practitioner is required to design and perform procedures to obtain a meaningful level of assurance³⁶. In such cases, the practitioner may perform additional risk procedures or design and perform further procedures in relation to significant areas of the engagement.
- A66. Based on the risk procedures performed, the assurance practitioner will be able to make an informed decision about whether the identified criteria are best addressed using a limited or reasonable assurance approach. For example, where risk procedures identify significant levels of engagement risk, a limited assurance engagement may not be suitable because:
- a limited level of assurance may not be meaningful to the users of the assurance report; or
 - there may no longer be an efficiency advantage for the assurance practitioner in performing a limited assurance engagement because the assurance practitioner may have to perform considerable additional work under paragraph 43 of this ASAE where the practitioner believes that there may be a significant variation in the activity's performance. In these circumstances the assurance practitioner may consider whether a reasonable assurance engagement will be more effective. This change in approach would be communicated through the engagement strategy.

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

- A67. Internal controls are processes designed, implemented and maintained by those charged with governance, management and other personnel to mitigate the risks which may prevent achievement of objectives relating to an entity and its operations, compliance or reporting.
- A68. The assurance practitioner's understanding of the entity's system of internal control provides a preliminary understanding of how the entity identifies business risks and how it responds to them. It may also influence the practitioner's identification and assessment of the risks of significant variation. This assists the practitioner in designing and performing further procedures, including any plans to test the operating effectiveness of controls.
- A69. In the context of a performance engagement, a relevant internal control is one designed to address (mitigate) the risks of significant variation in the activity's performance. A relevant internal control may include components of the control environment, the entity's risk assessment process, the entity's process for monitoring its system of internal control, the information system and communication, and specific control activities designed to mitigate specific risks. Professional judgment is needed to determine which controls are relevant in the engagement circumstances.
- A70. Internal controls relevant to an activity's performance may include controls that pervasively impact an entity's operations (indirect entity-level controls). Whether such controls are relevant, will likely depend on the engagement objective(s). For example, when the objective of an engagement is the effectiveness of the administration of grants for a public sector entity, internal control over human resources management may not be relevant to the performance

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

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

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

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

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

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

- A83. Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability. The assurance practitioner ordinarily considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting an evidence-gathering procedure for which there is no alternative. The assurance practitioner uses professional judgement and exercises professional scepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the conclusions in the assurance report.³⁷
- A84. Performance engagements require the application of assurance skills and techniques and the gathering of sufficient appropriate evidence as part of an iterative, systematic assurance engagement process. For further guidance on the nature, timing and extent of evidence-gathering procedures for performance engagements, refer to ASAE 3000.³⁸
- A85L. The evidence required in a limited assurance engagement would ordinarily be limited to that obtained by enquiry, analytical procedures and necessary documentation review. In contrast to a reasonable assurance engagement, the assurance practitioner in a limited assurance engagement would not ordinarily seek to corroborate evidence obtained, as long as the information obtained from applying assurance procedures appears plausible in the circumstances, as judged by the practitioner. In circumstances where the practitioner is not satisfied of the plausibility of the initial evidence collected, it may be necessary to seek corroboration of evidence or to conduct more detailed procedures.
- A86L. In considering the plausibility of evidence obtained, the assurance practitioner may consider, for example, whether the evidence:
- (a) is consistent with the practitioner's knowledge and understanding of the entity and activity subject to the engagement, and other evidence obtained during the course of conducting the engagement; and
 - (b) reasonably demonstrates that the criteria of the engagement have been met or not met.

³⁷ See ASAE 3000, paragraphs A147-A158.

³⁸ See ASAE 3000, paragraphs A109-A118.

- A87L. While enquiry is a key procedure in the conduct of a limited assurance engagement, the assurance practitioner is still required to exercise professional scepticism. This means that the documentation of enquiries cannot simply restate the matters discussed but rather should demonstrate the basis on which the assurance practitioner has considered and accepted the evidence as plausible in the circumstances.
- A88. Under ASAE 3000³⁹ it may not be appropriate for a reasonable assurance engagement that has commenced to be reduced to limited assurance, without reasonable justification. ASAE 3000 notes an inability to obtain sufficient appropriate evidence to support a reasonable assurance conclusion, is not an acceptable reason to change from a reasonable assurance engagement to a limited assurance engagement. In these circumstances the assurance practitioner may consider withdrawing from the engagement or issue a modified conclusion.

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

- A89L. If, in the case of a limited assurance engagement, the assurance practitioner becomes aware of a matter that leads the assurance practitioner to believe that there may be a significant variation in the activity's performance, the practitioner is required by paragraph 43L of this ASAE to design and perform modified and/or additional procedures to obtain further evidence, until the practitioner is able to form a conclusion that either:
- (a) the matter is not likely to result in a significant variation in the activity's performance; or
 - (b) a significant variation in the activity's performance exists.
- A90L. The modified/additional procedures may include additional enquiry and/or more detailed analytical procedures. The assurance practitioner may also deem it necessary to apply procedures normally used in undertaking a reasonable assurance engagement, which may necessitate detailed transactional or data testing. The fact that the assurance practitioner performs modified/additional procedures does not alter the assurance practitioner's objective of obtaining limited assurance in relation to the activity's performance.
- A91L. If, after having performed the modified/additional procedures the assurance practitioner is unable to achieve either of the outcomes in paragraph 43L, a scope limitation exists and the practitioner will issue, as appropriate, a qualified conclusion, disclaim a conclusion, or withdraw from the engagement, where withdrawal is possible under applicable law or regulation.

Written Representations (Ref: Para 46)

- A92. If the performance engagement is initiated by the assurance practitioner, the assurance practitioner may not be in a position to obtain representations from the responsible party, particularly as the responsible party may not be a party to the performance engagement.
- A93. Representations by the responsible party cannot replace other evidence the assurance practitioner could reasonably expect to be available. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a significant effect on the evaluation of the activity's performance, when such evidence would ordinarily be available, constitutes a limitation on the scope of the performance engagement, even if a representation from the responsible party has been received on the activity.
- A94. Written representations may include that the responsible party:
- (a) acknowledges its responsibility for conducting the activity, intended to achieve a certain level of performance;

³⁹ See ASAE 3000, paragraphs 29.

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

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

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

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

Subsequent Events (Ref: Para 49)

A96. The extent of consideration of subsequent events that come to the attention of the assurance practitioner depends on the potential for such events to affect the activity's performance and to affect the appropriateness of the assurance practitioner's conclusions. Consideration of subsequent events in some performance engagements may not be relevant because of the nature of the activity.

A97. The assurance practitioner does not have any responsibility to perform procedures or make any enquiry after the date of the report. However, if after the date of the report the assurance practitioner becomes aware of a matter identified, the assurance practitioner may consider re-issuing the report. In a performance engagement the new report discusses the reason for the new report under a heading "Subsequent Events".

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

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

A99. In forming the conclusion, the assurance practitioner evaluates the sufficiency and appropriateness of the evidence obtained.⁴¹ The practitioner also assesses the significance of the findings in relation to the engagement objective(s). Evaluating whether sufficient

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

⁴¹ See ASAE 3000, paragraphs A154-A158.

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

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

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

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

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

Comprehensive

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

Convincing

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

Timely

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

Reader friendly

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

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

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

Balanced

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

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

Assurance Report Content (Ref: Para 55-59)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Basis for Conclusion(s) (Ref: Para 55(i))

- A119. Depending on the legislative mandate that applies in each jurisdiction, Auditors-General may be required to either:

⁴³ See INTOSAI GUID 3910, paragraphs 27-32.

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

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

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

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

Recommendations (Ref: Para 56)

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

Documentation (Ref: Para 63)

A122. Documentation includes a record of the assurance practitioner's reasoning on all significant matters that require the exercise of professional judgement, and related conclusions. The existence of difficult questions of principle or judgement, calls for the documentation to include the relevant facts that were known by the assurance practitioner at the time the conclusion was reached.

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

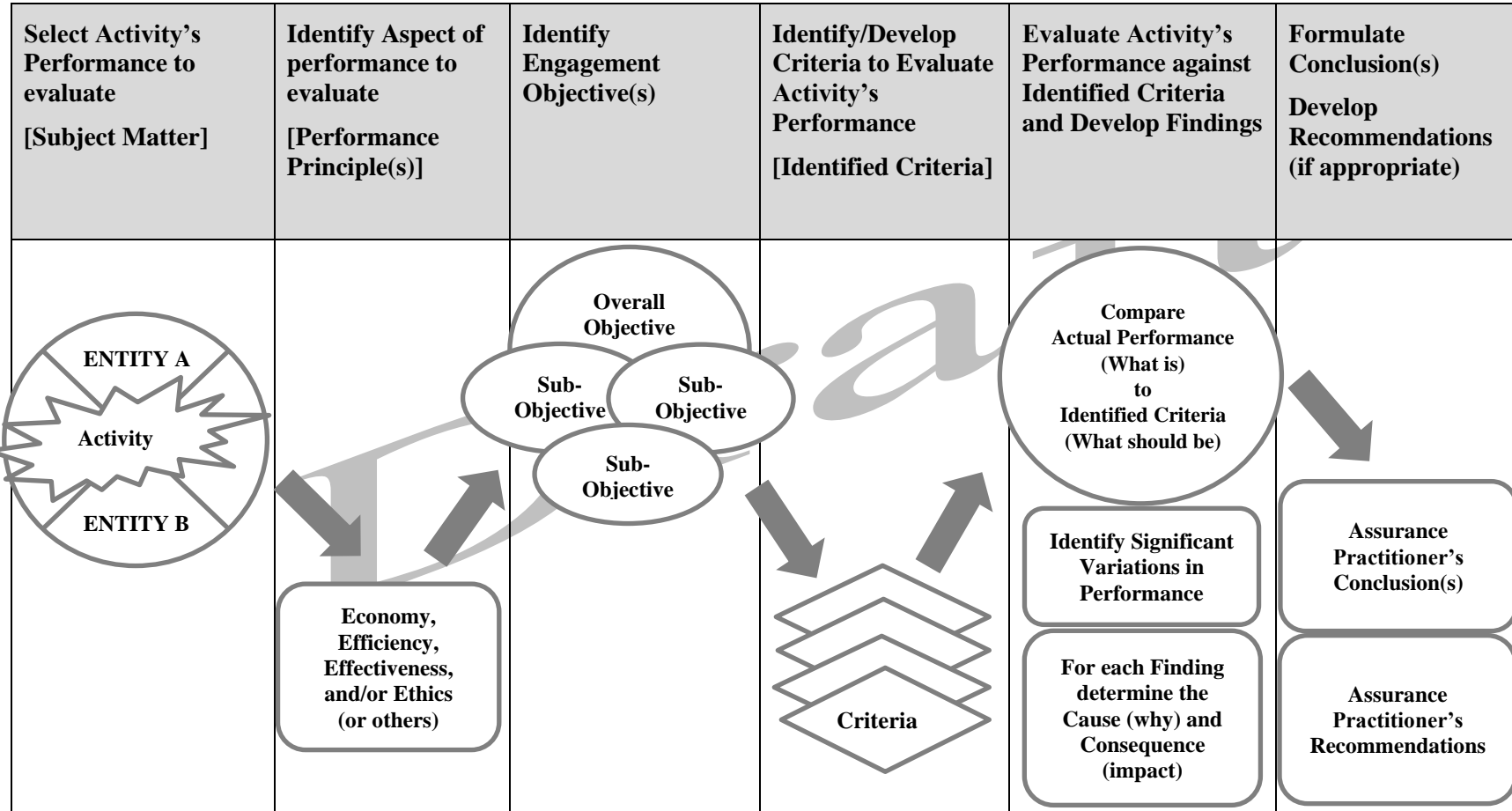
⁴⁵ See ASAE 3000, paragraphs A174-A178.

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

Appendix 1

(Ref: Para 7)

The Nature of A Performance Engagement



Appendix 2

(Ref: Para 7, A98)

Example of a Performance Engagement

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

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

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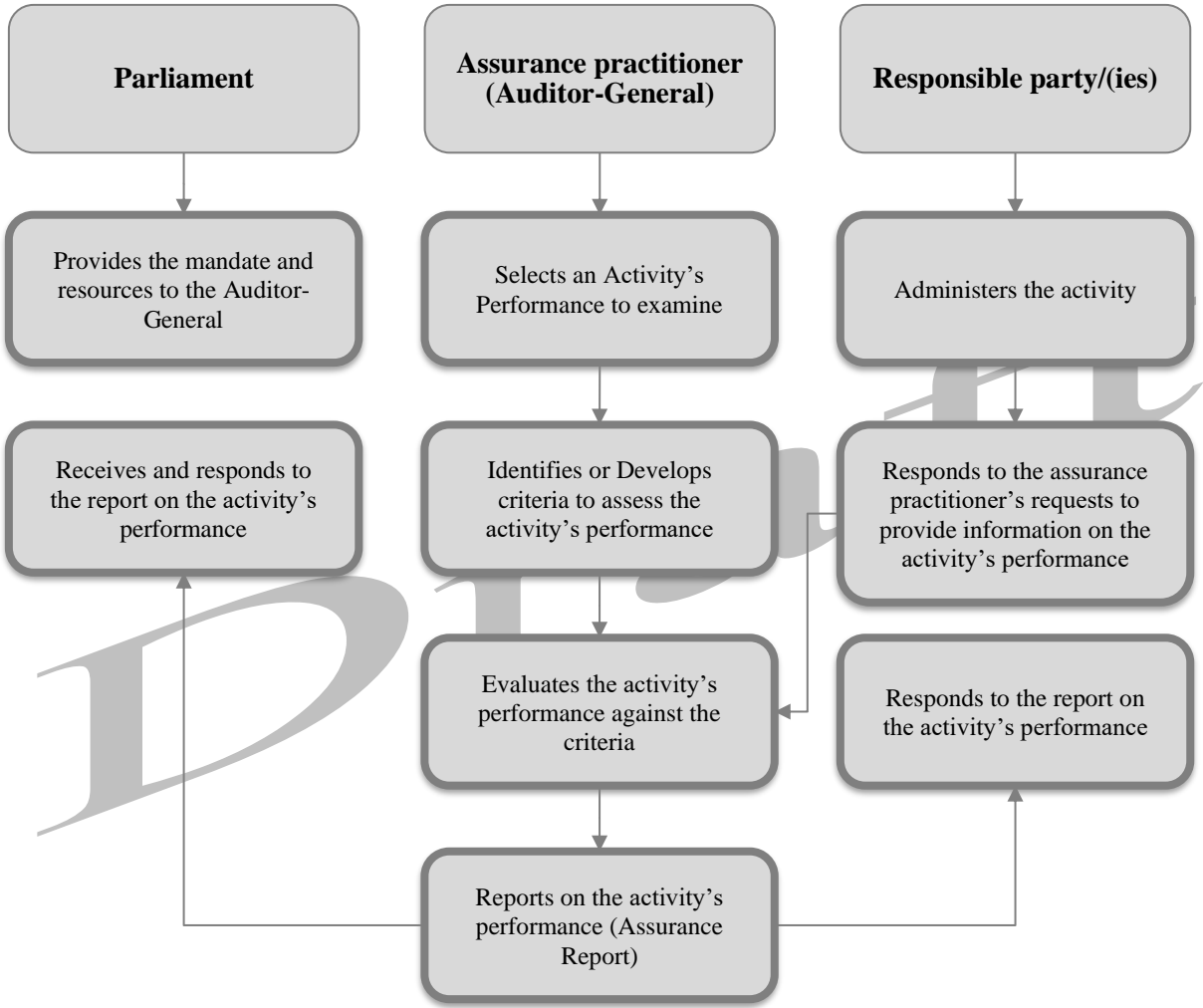
Sub-objectives	A. Existence of a Framework for Management of Existing Pests	B. Cooperation between the Responsible Entity and Landholders	C. Pest Control Activities
<p>Findings based on the Assurance Practitioner’s Evaluation of the Activity’s Performance against the Identified Criteria</p>	<p>The Framework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

Appendix 3

(Ref: Para 9)

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

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



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

Appendix 4

(Ref: Para 16, 57)

Standards Applicable to Example Engagements on an Activity's Performance

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

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

[May 2024]

Explanatory Memorandum

Exposure Draft 01/24:

Proposed Revised 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 Explanatory Memorandum

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

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Explanatory Memorandum

Exposure Draft 01/24: Proposed Revised Standard on Assurance Engagements ASAE 3500 Performance Engagements

Important Note and Disclaimer

This Explanatory Memorandum is issued by the AUASB to provide information to assurance practitioners and other stakeholders about the AUASB's proposed narrow scope¹ amendments to Standard on Assurance Engagements ASAE 3500 *Performance Engagements*. The revised Standard would replace ASAE 3500 *Performance Engagements*, last revised and re-issued in October 2017. The extant Standard was updated in December 2022 to reflect consequential amendments to AUASB Standards arising from changes made by the IAASB to ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, ISQM 2 *Engagement Quality Reviews* and ISA 220 (Revised) *Quality Management for an Audit of Financial Statements*.

The Explanatory Memorandum, in itself, would not establish or extend the requirements under existing AUASB Standards and is not intended to be a substitute for compliance with the relevant AUASB Standards with which assurance practitioners are required to comply with when conducting a performance engagement. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

¹ The AUASB has adopted a simplified due process for addressing changes to existing standards that are considered to be narrow in scope — refer to paragraphs 176-197 of the AUASB [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#).

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EXPLANATORY MEMORANDUM

Exposure Draft 01/24: *Proposed Revised Standard on Assurance Engagements ASAE 3500 Performance Engagements*

Introduction

1. The AUASB has undertaken a narrow scope revision² of Standard on Assurance Engagements [ASAE 3500 Performance Engagements](#) (ASAE 3500) to address the key findings from the AUASB's Post Implementation Review of the Standard undertaken in 2023.
2. The AUASB, at its May 2024 board meeting, approved *Exposure Draft 01/24: Proposed Revised Standard on Assurance Engagements ASAE 3500 Performance Engagements* (ED 01/24) for public exposure.
3. This Explanatory Memorandum (EM) accompanies, and should be read along with, ED 01/24. The aim of the EM is to provide stakeholders with background to, and an explanation of, ED 01/24; and to invite stakeholders to provide feedback on the AUASB's proposed revisions to ASAE 3500.

Request for Comments

4. The AUASB requests comments on all matters in relation to ED 01/24, but specifically in relation to the questions identified in the 'Exposure Draft Questions' section below.
 - The AUASB asks that comments are sufficiently detailed and include whether stakeholders agree or do not agree with the proposed amendments.
 - Stakeholders may address only specific questions relevant to them or raise matters not specifically addressed by a question.
 - The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed revised Standard.
 - Comments will be most helpful when they refer to specific paragraphs, include the reasons for the comments and, when appropriate, make specific suggestions for any proposed changes to wording.

Comment Closing Date

5. Comments are invited on the Exposure Draft by no later than **XX July/August 2024**.

² The AUASB has adopted a simplified due process for addressing changes to existing standards that are considered to be narrow in scope — refer to paragraphs 176-197 of the AUASB [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#).

Exposure Draft Questions

6. The AUASB is seeking comments from stakeholders on the questions below. In preparing your submission, please have regard to the guidelines set out in paragraph 4 of this EM.

1. Does the proposed revised Standard provide sufficient flexibility for it to be applied to a broad range of performance engagements in both the public sector and private sector? If not, what suggestions do you have for making this clearer?

[See ED 01/24, revised introductory paragraphs 3-10, revised definition of ‘performance engagement’ (paragraph 18(m)) and new definition of ‘performance principle’ (paragraphs 18(n) / A5)]. [EM paragraph 18(a)].

2. Does the proposed revised Standard provide appropriate principles for performing limited assurance performance engagements by appropriately addressing and differentiating the work effort between limited and reasonable assurance for relevant elements of the performance engagement? If not, what do you propose and why?

[See ED 01/24, paragraphs 4 / A2 and throughout]. [EM paragraphs 18(b), 18(c)(i)].

3. The proposed revised Standard uses the term ‘significance’ instead of the ASAE 3000³ term ‘materiality’ in the context of performance engagements.

[See ED 01/24, paragraphs 18(t), 31-33 / A31-A55]. [EM paragraph 18(c)(ii)].

- (a) Do you support the AUASB’s proposal to replace the extant concept of ‘materiality’ with the concept of ‘significance’ in the proposed revised Standard? If not, why not?
- (b) Do you agree with the new requirements and accompanying application material related to significance set out in paragraphs 31-33 / A31-A55 of ED 01/24 (which will replace extant paragraphs 29-31 / A26-A34)? If not, what do you propose and why?

4. Do you support the proposed revised requirements and accompanying application material in paragraphs 36-40 / A59-A82 of ED 01/24 (which will replace extant paragraphs 32-33 / A35-A39), which clarify:

- (a) the circumstances when internal controls could be considered relevant in the context of a performance engagement; and
- (b) the risk procedures the assurance practitioner is required to perform to obtain an understanding of internal controls relevant to the performance engagement.

If not, what do you propose and why?

[EM paragraph 18(c)(iii)]

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

Explanatory Memorandum

Exposure Draft 01/24: Proposed Revised Standard on Assurance Engagements ASAE 3500 Performance Engagements

5. Is the proposed revised Standard sufficiently clear about the nature and extent of non-compliance with laws and regulations procedures the assurance practitioner is required to perform?

[See ED 01/24, paragraphs 35(a) / A58, which will replace extant paragraph 34].
[EM paragraph 18(c)(iv)]
6. Will the proposed revised reporting requirements and accompanying application material in paragraphs 52-59 / A101-A121 of ED 01/24 (which will replace extant paragraphs 43-48 / A49-A55) drive assurance reporting that meets the information needs of the intended users of assurance reports on an activity's performance? If not, please be specific about any matters that should not be required to be included in the assurance report, or any additional matters that should be included, and explain why.

[EM paragraph 18(d)]
7. Do you foresee any difficulties in implementing any of the new/revised requirements?
8. Have applicable laws and regulations been appropriately addressed in the proposed narrow scope amendments to the Standard?
9. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed narrow scope amendments, or may conflict with the proposed narrow scope amendments to the Standard?
10. Are there any principles and practices considered appropriate in maintaining or improving assurance quality in Australia that may, or do, prevent or impede the application of, or may conflict with, the proposed narrow scope amendments to the Standard?
11. What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of this proposed standard? If significant costs are expected, the AUASB would like to understand:
 - (a) Where those costs are likely to occur;
 - (b) The estimated extent of costs, in percentage terms (relative to audit fees); and
 - (c) Whether expected costs outweigh the benefits to the users of performance engagements?
12. Are there any other significant public interest matters that stakeholders wish to raise in relation to ED 01/24?

Background

ASAE 3500 Performance Engagements

7. ASAE 3500 deals with direct engagements in which an assurance practitioner (accountant or non-accountant) evaluates a responsible party or parties' performance of an activity against identified criteria and aims to obtain sufficient appropriate evidence to express, in a written direct assurance report, a conclusion to intended users about the outcome of that evaluation.
8. ASAE 3500 is an Australian Standard with no IAASB equivalent. It is issued by the AUASB under the AUASB's *Framework for Assurance Engagements*, which is consistent with the IAASB's equivalent Framework.
9. ASAE 3500 is used primarily by State, Territory or Commonwealth Auditors-General for conducting performance engagements in the public sector; however, may also be used in the private sector.
10. ASAE 3500 is to be applied in conjunction with ASAE 3000⁴. ASAE 3500 adapts the requirements in ASAE 3000, which is written primarily for attestation engagements (i.e. where management measures or evaluates the subject matter against criteria), as necessary, to direct engagements (i.e. where the assurance provider evaluates the subject matter against applicable criteria) on performance and identifies the requirements of ASAE 3000 which the assurance practitioner is required to comply with in addition to the requirements of ASAE 3500.

Post Implementation Review (PIR) of ASAE 3500

11. Extant ASAE 3500 was revised and reissued by the AUASB in October 2017.⁵ As required under the AUASB's Due Process Framework⁶, a [Post Implementation Review](#) (PIR) of the Standard was conducted during the period April-June 2023, to evaluate the effectiveness and efficiency of the revised Standard's implementation and application in practice.
12. For a summary of the key findings from the PIR, refer to the AUASB's [Feedback Statement](#) that has been released publicly on the AUASB website.

Narrow Scope Revision of ASAE 3500

13. At its June 2023 meeting, the AUASB supported the commencement of a new project to make narrow scope amendments to ASAE 3500, to address the key findings from the PIR.
14. The revision is considered narrow in scope as it was targeted at the specific issues identified by stakeholders that participated in the PIR, rather than undertaking a full-scale revision of the Standard in its entirety. The [Project Plan](#) provides further information on the objective and scope of the project, planned approach and consultation with stakeholders.
15. A Project Advisory Group (PAG), consisting of 9 members representing each Auditor-General's Office in Australia, was formed in July 2023 to assist the Office of the

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

⁵ ASAE 3500 was updated in December 2022 to reflect conforming and consequential amendments in response to the revised suite of Quality Management Standards that became effective for financial reporting periods commencing on or after 15 December 2022.

⁶ [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#) — refer to paragraphs 250-254.

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AUASB with the revision. The PAG is chaired by the AUASB Deputy Chair, who is also the current Northern Territory Auditor-General.

16. The PAG met in August 2023 to discuss an Issues Paper prepared by the Office of the AUASB, which outlined the proposed narrow scope revisions to the Standard and identified specific matters where the PAG's input would be required. The PAG met on two further occasions in September 2023 and March 2024 to consider and provide feedback on aspects/drafts of the proposed revised Standard. PAG members also provided input to the development of the revised Standard in response to specific Requests for Information from the Office of the AUASB.
17. A final draft of ED 01/24 was shared with the PAG on 8 April 2024 for a fatal flaw review. All PAG members supported the amendments in the final draft and did not raise any fatal flaw issues.

Key Proposals

[Also refer to Appendix 1 — Summary of Key Changes to Extant ASAE 3500 (revised October 2017, updated December 2022)]

18. The changes proposed in ED 01/24 to address the key findings from the PIR are:
 - (a) **Amend extant ASAE 3500 to make it sufficiently clear that the Standard can be applied to a broad range of performance engagements in both the public sector and private sector.**

The existing ASAE 3500 expresses 'performance' in terms of economy, efficiency, and effectiveness only (the '3Es'). However, PIR stakeholder feedback revealed that, in practice, 'ethics' is considered a fundamental and co-equal element of the proper use and management of public resources. It is therefore proposed that references to 'economy, efficiency and effectiveness' in the extant Standard be replaced with the term 'performance principle(s)', which is now defined in the revised Standard. The definition of performance principle clarifies that, although performance engagements generally focus on one or more of the principles of economy, efficiency, effectiveness, and/or ethics, performance engagements may also focus on other principles such as equity, probity and sustainability (amongst others). See ED 01/24, revised introductory paragraphs 3-10, revised definition of 'performance engagement' (paragraph 18(m)) and new definition for 'performance principle' (paragraphs 18(n) / A5).
 - (b) **Expand the scope of extant ASAE 3500 to include specific requirements and application material for limited assurance performance engagements.**

The existing ASAE 3500 deals with direct engagements to provide a reasonable assurance report on the performance of an activity. The extant Standard does not include any requirements or application material for undertaking limited assurance engagements but allows for the Standard to be applied (adapted and supplemented as necessary) to limited assurance engagements.⁷

Paragraph 4 of ED 01/24 explains that, unless otherwise stated, each requirement of the proposed revised Standard applies to both reasonable and limited assurance

⁷ See extant ASAE 3500, paragraph 3.

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engagements. Requirements and Application and Other Explanatory Material that apply only to limited assurance or reasonable assurance engagements have been presented with the letter ‘L’ (limited assurance) or ‘R’ (reasonable assurance) after the paragraph number. Although some procedures are required only for reasonable assurance engagements, they may nonetheless be appropriate in some limited assurance engagements.

- (c) **Provide more specificity than ASAE 3000 (which is written primarily to apply to attestation engagements) for performance engagements (which are direct engagements), including further application material to demonstrate key principles, in the following areas:**
- (i) **The difference in work effort between limited and reasonable assurance in the context of a performance engagement.**
 - (ii) **The concept of materiality in the context of a performance engagement and matters to consider in applying materiality in a performance engagement.**

It is proposed that the term ‘significance’ replaces the ASAE 3000 term ‘materiality’ in the context of performance engagements.

Feedback from the PAG suggests the concept of significance may be more:

- Useful in the context of a performance engagement, which is a direct engagement (see paragraph A1 of ED 01/24, which outlines the unique features that differentiates direct engagements from attestation engagements). Members of the PAG considered significance to be a broader concept than the ASAE 3000 concept of materiality (which may be more relevant in the context of an attestation engagement). Therefore, it can be applied more flexibly at different stages of the engagement, from selecting the performance engagement topics and activities to examine, all the way through to reporting findings, formulating the assurance conclusion(s), and developing recommendations (see paragraph 31 of ED 01/24). Some PAG members noted that attempting to apply the ASAE 3000 concept of materiality at a criteria and sub-criteria level can be frustrating and inefficient, and does not help Audit Offices in making sure they are spending the taxpayer’s money reporting to Parliament on important issues where they could help improve government services.
- Meaningful to the lay person reading the assurance report, especially when communicated in terms of the causes and consequences of findings.

It is worthwhile noting that the Canadian Auditing and Assurance Standards Board has replaced the term ‘materiality’ with ‘significance’ in their ASAE 3000 equivalent standard for direct engagements⁸, and in related guidance on conducting a performance audit in the public sector.⁹ The Office

⁸ See CSAE 3001 *Direct Engagements*. CSAE 3001 requirements and application material related to significance mostly mirrors the requirements and application material for materiality included in ISAE 3000/ASAE 3000.

⁹ See Assurance and Related Services Guideline AuG-50 *Conducting a Performance Audit in the Public Sector in accordance with CSAE 3001*.

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of the Auditor General of Canada has adopted the term significance for use in the context of performance engagements.

The revised Standard includes new requirements and accompanying application material related to consideration of significance in the context of a performance engagement — see paragraphs 18(t), 31-33/A31-A55 of ED 01/24¹⁰.

- (iii) The nature and extent of the assurance practitioner’s understanding of relevant internal controls in the context of a performance engagement — see paragraphs 34-40/A56-A82 of ED 01/24.¹¹**
- (iv) Non-compliance with laws and regulations procedures in the context of a performance engagement — see paragraphs 35(a)/A58 of ED 01/24.¹²**
- (d) Revise the reporting requirements of the Standard (content and format of the assurance report) to be clearer, and to provide additional explanatory and application material to promote consistent application in practice.**

 - PIR stakeholder feedback indicated divergent practices in applying the Standard’s reporting requirements in the different jurisdictions in Australia. Current practice is for Auditors-General to report their conclusions together with other information such as findings (that highlight both positive and negative aspects of performance) and recommendations, in a long form-report. Auditors-General consider such practice is consistent with their purpose of improving public sector performance and supporting accountability and transparency in the Australian government sector through their independent reporting. It is considered assurance reports on performance should also provide new information, analysis or insights and, where appropriate, recommendations for improvement, that could benefit all government entities.
 - Extant ASAE 3500 reporting requirements are based on the reporting requirements of ASAE 3000, which have been written primarily to apply to attestation engagements. ASAE 3000 has not yet been updated to reflect the updated reporting requirements of the revised ASA 700¹³. It is noted that the revised ASA 700 reporting requirements have been used as guide for developing the elements of the assurance report on sustainability information under ED ISSA 5000¹⁴.
 - Given ASA 700 and ED ISSA 5000 reflect the latest thinking about the form and content of an assurance practitioner’s report, these pronouncements were used as starting point in updating the extant ASAE 3500 reporting requirements — adapted and supplemented as necessary to apply to direct engagements. In line with the expanded scope of the Standard, the revised ASAE 3500 also now include reporting requirements for limited assurance performance engagements. See paragraphs 52-59/A101-A121 of ED 01/24.¹⁵

¹⁰ To replace extant ASAE 3500, paragraphs 29-31 and A26-A34.

¹¹ To replace extant ASAE 3500, paragraph 32-33/A35-A39.

¹² To replace extant ASAE 3500, paragraph 34.

¹³ ASA 700 *Forming an Opinion and Reporting on a Financial Report*.

¹⁴ Exposure Draft of Proposed International Standard on Sustainability Assurance (ISSA) 5000 *General Requirements for Sustainability Assurance Engagements*.

¹⁵ To replace extant ASAE 3500, paragraphs 43-48/A49-A55.

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(e) Other revisions:

- Replace extant ASAE 3500 Appendices 1-3 with revised (enhanced) Appendices 1 and 2 and new Appendix 3, to reflect revisions to the main body of the Standard.
- Make amendments to extant ASAE 3500 to make it easier to read and understand (a 'plain English' format) and to use terminology more familiar to performance assurance practitioners, who may not come from a traditional accounting or financial auditing background. The revised Standard will now also align closer to international standards and guidance on performance engagements issued by the International Organization of Supreme Audit Institutions (INTOSAI).

Proposed Application Date

19. It is proposed that the revised ASAE 3500 will be operative for assurance engagements commencing on or after [XX 2024].

* * *

Appendix 1

Summary of Key Changes to Extant ASAE 3500 (revised October 2017, updated December 2022)

EM ¹⁶ Para. Ref.	Extant Para. Ref.	ED 01/24 Para. Ref.	How affected
18(a)	3-8 16(n) 16(o)	3-10 18(m) 18(n) /A5	Extant ASAE 3500 amended to make it sufficiently clear that the Standard can be applied to a broad range of performance engagements in both the public sector and private sector — <ul style="list-style-type: none"> • Amended introduction section. • Updated/new definitions. • Additional application and other explanatory material.
18(b) 18(c)(i)	3 / A1	4 / A2 Throughout	Scope of extant ASAE 3500 expanded to include specific requirements and application material for limited assurance performance engagements — <ul style="list-style-type: none"> • New requirements. • New application and other explanatory material.
18(c)(ii)	16(m) 29-31 / A26-A34	18(t) 31-33 / A31-A55	The revised ASAE 3500 uses the term/concept ‘significance’ in the context of performance engagements, instead of the ASAE 3000 term/concept of ‘materiality’ — <ul style="list-style-type: none"> • New definition. • New requirements. • New application and other explanatory material.
18(c)(iii)	32-33 / A35-A39	34-40 / A56-A82 18(j)(s)	The revised ASAE 3500 provides more specificity than ASAE 3000 re understanding of relevant internal controls in the context of performance engagements — <ul style="list-style-type: none"> • Amended/new requirements. • Amended/new application and other explanatory material. • New definitions to differentiate between ‘risk procedures’ (18(s)) and ‘further procedures’ (18(j)).
18(c)(iv)	34	35(a) / A58	The revised ASAE 3500 provides more specificity than ASAE 3000 re non-compliance with laws and regulations procedures in the context of a performance engagement — <ul style="list-style-type: none"> • Amended requirement. • New application and other explanatory material.

¹⁶ Explanatory Memorandum to ED 01/24.

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ASAE 3500 Performance Engagements***

18(d)	43-48 / A49-A55	52-59 / A101-A121	Extant ASAE 3500 reporting requirements (content and format of the assurance report) have been revised to be clearer — <ul style="list-style-type: none">• New/amended requirements (including for limited assurance engagements).• New/amended application and other explanatory material to promote consistent application in practice.
18(e)	Appendices 1-3	Appendices 1-3	Extant ASAE 3500 Appendices 1-3 replaced with revised (enhanced) Appendices 1 and 2 and new Appendix 3.
18(e)	Throughout	Throughout	Amendments throughout to make the Standard easier to read and understand and to align the Standard closer to international standards and guidance on performance engagements issued by INTOSAI ¹⁷ .

¹⁷ International Organization of Supreme Audit Institutions.

EXPOSURE DRAFT

ASAE 3500ED 01/24

(December 2022-May 2024)

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

Comments Due: XX July/August 2024 (60-day comment period)

Issued for Comment by the Auditing and Assurance Standards Board

Draft



Australian Government

Auditing and Assurance Standards Board

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Draft

PREFACE

Reasons for Issuing ASAE 3500ED 01/24

The AUASB issues Exposure Draft ED 01/24 of proposed Revised Standard on Assurance Engagements ASAE 3500 *Performance Engagements* (proposed Revised ASAE 3500) Standard on Assurance Engagements ASAE 3500 *Performance Engagements* pursuant to the requirements of the legislative provisions explained below.

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

Main Proposals

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

~~The amendments arise from changes made by the IAASB to ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, ISQM 2 *Engagement Quality Reviews* and ISA 220 (Revised) *Quality Management for an Audit of Financial Statements*.~~

Main Features

~~This Standard on Assurance Engagements ASAE 3500 *Performance 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.~~~~

~~This ASAE will replace the current ASAE 3500 issued by the AUSB in October 2017.~~

The AUASB has undertaken a narrow scope revision of the existing Standard on Assurance Engagements ASAE 3500 *Performance Engagements* (revised October 2017, updated December 2022) (existing ASAE 3500) to address the key findings from the AUASB's Post Implementation Review of the Standard undertaken in 2023.

The AUASB is proposing to replace the existing ASAE 3500 with the proposed Revised ASAE 3500.

Refer to the Explanatory Memorandum accompanying ED 01/24 for:

- (a) background information on ED 01/24;
- (b) an explanation of the proposed changes to existing ASAE 3500; and
- (c) further information regarding the feedback sought, including Exposure Draft Questions.

Request for Comments

Comments are invited on this Exposure Draft by no later than XX 2024.

Draft

AUTHORITY STATEMENT

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

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

Dated: ~~6 September 2022~~ XXX

W R Edge Doug Niven
Chair - AUASB

Draft

Conformity with International Standards on Assurance Engagements

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

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

Draft

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

STANDARD ON ASSURANCE ENGAGEMENTS ASAE 3500

Performance Engagements

Application

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

Operative Date

2. This ~~Standard on Assurance Engagements~~ ASAE is operative for assurance engagements commencing on or after ~~15 December 2022~~ XXX.

Introduction

Scope of this ~~ASAE~~ Standard on Assurance Engagements

3. This 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 in which an assurance practitioner evaluates a responsible party or parties' performance of an activity (hereafter referred to as an 'activity's performance') against identified criteria and aims to obtain sufficient appropriate evidence to express, in a written direct assurance report, a conclusion to intended users about the outcome of the evaluation.~~ (Ref: Para A1)
4. ~~This ASAE includes requirements and application and other explanatory material for reasonable and limited assurance performance engagements. Unless otherwise stated, each requirement of this ASAE applies to both reasonable and limited assurance engagements. Because the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the assurance practitioner performs in a limited assurance engagement will vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Requirements and Application and Other Explanatory Material that apply only to limited assurance or reasonable assurance engagements have been presented with the letter "L" (limited assurance) or "R" (reasonable assurance) after the paragraph number. Although some procedures are required only for reasonable assurance engagements, they may nonetheless be appropriate in some limited assurance engagements.~~ (Ref: Para A2)
- 4.5. This ASAE addresses assurance engagements on performance:
 - (a) of all or part of any activity, whether within an entity or across multiple entities; (Ref: Para A3-A4)
 - (b) evaluated against identified criteria selected or developed by the assurance practitioner or the engaging party; and
 - ~~(c) — providing a reasonable assurance conclusion; and~~
 - ~~(d)~~ (c) for either restricted use, by the engaging party or specified third parties, or to be publicly available, through tabling in Parliament or other means of distribution.
- 5.6. ~~Other frequently performed engagements that are not assurance engagements and, therefore, are not covered by this ASAE, include:~~

- (a) Agreed-upon procedures engagements², where procedures are conducted and factual findings are reported but no assurance conclusion is provided, and
- (b) ~~consulting~~ Consulting engagements³, for the purpose of providing advice on performance but no assurance conclusion is provided, are not assurance engagements and are not dealt with in this ASAE. Agreed-upon procedures engagements are addressed under Standard on Related Services, ASRS 4400.⁴

Nature of a Performance Engagement

~~6.7.~~ The essential elements of performance engagements are: (Ref: Appendix 1 and Appendix 2)

- (a) a three party relationship involving:
 - (i) an assurance practitioner who may be, including a State, Territory or Commonwealth Auditor-General;
 - (ii) a responsible party or a number of responsible parties involved in the activities activity's performance which are the subject matter of the performance engagement; and
 - (iii) intended users of the assurance report, which are often may include the responsible party, Parliament and the general public;
- (b) an appropriate activity's performance (the subject matter);
- (c) suitable criteria;
- (d) sufficient appropriate evidence; and
- (e) a written assurance report.

~~7.8.~~ Performance engagements are most commonly conducted on an activity activities delivered or controlled by the Government. The objective of a performance engagement is to evaluate the performance of an activity Performance engagements generally focus on one or more of the principles of, with respect to economy, efficiency, and/or effectiveness, and/or ethics; however, against the identified criteria, may also focus on performance principles such as equity, probity and sustainability, amongst others. The scope of a performance engagement is either determined by an 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 A3-A5-A2-A3)

~~8.9.~~ Performance engagements are usually *initiated* by a State, Territory or the Commonwealth 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 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 may not usually be required. The scope of a performance engagement is generally determined by an Auditor-General. The roles and responsibilities of the parties to a performance engagement initiated by an Auditor-General are illustrated in Appendix 3. (Ref: Para A4A9, A10)

10. Performance engagements may also be accepted by a private sector assurance practitioner from an engaging party in the private or public sector. In these circumstances, the scope of the

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

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

⁴ See ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*.

performance engagement is determined by the engaging party based on the information needs of the engaging party and other identified users.

Relationship with ASAE 3000, Other AUASB Pronouncements and Other Requirements

- ~~9.11.~~ This ASAE adapts the requirements in ASAE 3000⁵ *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, which is written primarily for attestation engagements, as necessary, to direct engagements on performance and identifies the requirements of ASAE 3000 which the assurance practitioner is required to comply with in conducting a performance engagement in addition to the requirements of this ASAE.⁶ 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.
- ~~10.12.~~ This ASAE requires the assurance practitioner to apply the ASAE 3000 requirement to comply with relevant ethical requirements related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. It also requires the Audit Office of ~~the an~~ Auditor-General to apply ASQM 1⁷ or the ~~lead assurance practitioner~~ assurance practitioner to be a member of a firm that applies ASQM 1 or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQM 1.
- ~~11.13.~~ An assurance engagement performed under this ASAE may be part of a larger engagement. If multiple standards are applicable to the assurance engagement, the assurance practitioner applies, either:
- (a) if the engagement can be separated into sections, the standard relevant to each section of the engagement, including this ASAE for the section on performance; or
 - (b) if the engagement cannot be separated into sections, the standard which is most directly relevant to the subject matter.
- ~~12.14.~~ In circumstances when an assurance engagement performed under this ASAE includes a compliance section, the assurance practitioner applies both ASAE 3100⁸ *Compliance Engagements* and ASAE 3500, as applicable, in conducting the assurance engagement.
- ~~13.15.~~ Assurance conclusions on performance may be required by Parliament, legislation, industry bodies or other users in conjunction with assurance conclusions on historical financial statements, other historical financial information, compliance, controls and/or other subject matters. In these performance engagements the subject matter, identified criteria against which that subject matter is evaluated and the level of assurance sought may vary, in which case different standards will apply. Assurance reports can include separate sections for each subject matter, identified criteria or level of assurance in order that the different matters to be concluded upon are clearly differentiated.
- ~~14.16.~~ A table showing the AUASB Standards that apply to certain engagements, depending on the subject matter and engagement circumstances, is contained in Appendix 4.

Objectives of this ASAE

- ~~15.17.~~ The objectives of the assurance practitioner for a performance engagement~~In conducting a performance engagement, the objectives of the assurance practitioner~~ are to:
- (a) ~~obtain reasonable assurance about an activity's performance against identified criteria;~~

⁵ ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

⁶ See ASAE 3000, paragraph 2.

⁷ ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*.

⁸ ASAE 3100 *Compliance Engagements*.

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

Definitions

~~16.18.~~ For the purposes of this ASAE, 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~~ An aspect of an entity's operations such as the achievement of strategic objectives or legislative requirements or the delivery of a product, service or programme. An activity may be conducted within a single entity or across multiple entities, departments, agencies, joint ventures or other organisations, within a single jurisdiction or across multiple jurisdictions. (Ref: Para A3-A4)
- ~~(b)~~ Activity's performance—The responsible party or parties' performance of the activity being reported on (that is, the subject matter for the performance engagement).
- ~~(b)~~(c) Assurance practitioner—Individual or firm or other organisation, whether in public practice, industry and commerce, or the public sector, providing assurance services including performance engagements. ~~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.~~
- ~~(e)~~(d) Attestation engagement—An assurance engagement in which a party other than the assurance practitioner measures or evaluates the underlying subject matter against the criteria. ~~A party other than the assurance practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the assurance practitioner in the assurance report. In an attestation engagement, the assurance practitioner's conclusion addresses whether the subject matter information is free from material misstatement.⁹ The outcome of that measurement or evaluation is often presented in a report or statement.~~ (Ref: Para A1)
- ~~(d)~~(e) Criteria—The benchmarks used to ~~measure or evaluate the underlying subject matter, which in a performance engagement is the activity's performance.~~ The "identified criteria" are the criteria used for the particular engagement. (Ref: Para 27)
- ~~(e)~~(f) Direct engagement ~~on performance on performance~~—An ~~reasonable~~ assurance engagement in which the assurance practitioner ~~obtains sufficient appropriate evidence to~~ evaluates ~~the an~~ activity's performance (the subject matter) against the identified criteria. The outcome of ~~the assurance practitioner's this~~ evaluation, ~~that is, the resulting subject matter information (for example, the assurance practitioner's analysis and findings) is expressed in the assurance practitioner's conclusion presented as part of, or accompanying, the assurance report. In a direct engagement, the assurance practitioner's conclusion addresses the reported outcome of the evaluation of the subject matter against the criteria.¹⁰~~ (Ref: Para A1)

⁹ See ASAE 3000, paragraph 12(a)(ii)a.

¹⁰ See ASAE 3000, paragraph 12(a)(ii)b and Framework for Assurance Engagements, paragraph 13.

- (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.~~
- (g) Engagement Objective (objective of the performance engagement)—States the purpose of the performance engagement. The engagement objective needs to be expressed in a way that makes it possible to conclude against the objective after the engagement has been finalised.¹¹ (Ref: Para A27-A30)
- (h) Engagement risk—the risk that the assurance practitioner expresses an inappropriate conclusion.¹²
- (i) Engaging party—The party(ies) that engages the assurance practitioner to perform the assurance engagement. In a performance engagement initiated by an Auditor-General there will not normally be an engaging party as the State, Territory or Federal Parliament provide the mandate for the Auditor-General to conduct performance engagements, but will not usually engage the Auditor-General to perform specific performance engagements.
- (j) Further procedures—Procedures, including tests of controls and substantive procedures, performed to: (Ref: Para 41-46)
- (i) In a limited assurance engagement, respond to the identified areas where a significant variation in an activity’s performance is likely to arise; and
- (ii) In a reasonable assurance engagement, respond to the risks that may cause significant variations in an activity’s performance.
- (k) ~~Intended users—Parliament and the responsible party(ies), as well as individual(s) or organisation(s), or group(s) or individuals 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. intended users includes the public.~~
- (l) Limited assurance engagement—An assurance engagement in which the assurance practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement as the basis for the assurance practitioner’s conclusion. The assurance practitioner’s conclusion is expressed in a form that conveys whether, based on the procedures performed and evidence obtained a matter(s) has come to the assurance practitioner’s attention to cause the assurance practitioner to believe that the responsible party(ies) activity has not been performeddid not perform the activity in accordance with the identified criteriawith 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 activity’s performanceof the activity to a degree that is clearly more than inconsequential. For further information on the nature, timing and extent of procedures in a limited assurance

¹¹ INTOSAI Guidance GUID 3910, paragraph.35.

¹² See ASAE 3000, paragraphs A11-A14 for further information.

engagement and the concept of ‘meaningful assurance’, refer to ASAE 3000¹³(Ref: Para A2, A100).

- (m) ~~Materiality—variations in performance of an activity evaluated against the identified criteria which, have the potential to affect 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) ~~Objective of a performance engagement—is to evaluate the performance of an activity or activities, with respect to economy, efficiency and/or effectiveness against the identified criteria.~~
- (~~o~~)(m) Performance engagement—An assurance engagement ~~to that~~ concludes on the performance (expressed as either economy, efficiency and/or effectiveness) of all or a part of the ~~an~~ activity’s performance or activities of an entity or across multiple entities as evaluated by against identified criteria. Performance engagements generally focus on one or more performance principles (see 18(n) below) commonly referred to as a performance audit. Performance engagements seek to provide new information, analysis or insights and, where appropriate, recommendations for improvement¹⁴.
- (n) Performance principle—The specific aspect of performance being evaluated against the engagement objective. Performance engagements generally focus on one or more of the principles of economy, efficiency, effectiveness, and/or ethics; however, may also focus on performance principles such as equity, probity and sustainability, amongst others. (Ref: Para A5).
- (~~p~~)(o) Professional scepticism—~~A~~an attitude that includes a questioning mind, being alert to the validity of evidence obtained and ~~to~~ critically assessing evidence that contradicts or brings into question the reliability of documents and responses to enquiries and other information obtained. Information may include data, documents and responses to enquiries.
- (~~q~~)(p) Reasonable assurance engagement—An assurance engagement in which the assurance practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the assurance practitioner’s conclusion. The assurance practitioner’s conclusion is expressed in a form that conveys the assurance practitioner’s conclusion on the outcome of the evaluation of the activity’s performance against the identified criteria.
- (~~r~~)(q) Representation—Statement by the responsible party(ies), either oral or written, provided to the assurance practitioner to confirm certain matters or to support other evidence.
- (~~s~~)(r) Responsible party—The party or parties responsible for the performance of all or part of the activity, which is the subject matter of the performance engagement.
- (s) Risk procedures—Procedures designed and performed to: (Ref: Para 36-40)
- (i) In a limited assurance engagement, identify areas where a significant variation in an activity’s performance is likely to arise; and
- (ii) In a reasonable assurance engagement, identify and assess the risks that may cause significant variations in an activity’s performance.

¹³ See ASAE 3000, paragraphs A3-A7.

¹⁴ INTOSAI Standard ISSAI 300, paragraph 10.

- (t) Significance¹⁵—The relative importance of a matter, within the context in which it is being considered, that could potentially influence the decisions of the intended users of the assurance report. (Ref: Para 31-33)
- ~~(t)(u)~~ Subject matter ~~or underlying subject matter~~—The phenomenon that is measured or evaluated by applying criteria.¹⁶ In the context of a performance engagement the subject matter is the responsible party or parties' performance of an activity which is evaluated or measured against the identified criteria.
- ~~(u)(v)~~ Variation—An instance where the actual performance of the activity varies from underlying subject matter exceeds the identified criteria or is deficient in whole or part, as evaluated against the identified criteria.

Requirements

Applicability of ASAE 3000

- ~~17.19.~~ The assurance practitioner shall not represent compliance with this ASAE unless the assurance practitioner has complied with the requirements of this ASAE and the requirements of ASAE 3000 identified in this ASAE as relevant to performance engagements, adapted as necessary for direct engagements. ~~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.~~¹⁷

Inability to Comply with Relevant Requirements

- ~~18.20.~~ Where in rare and exceptional circumstances, factors outside the assurance practitioner's control prevent the assurance practitioner from complying with a relevant requirement in this ASAE, the assurance practitioner shall:
- (a) if possible, undertake appropriate alternative evidence-gathering procedures; and
 - (b) document in the working papers:
 - (i) the circumstances surrounding the inability to comply;
 - (ii) the reasons for the inability to comply; and
 - (iii) justification of how alternative evidence-gathering procedures achieve the objectives of the relevant requirement.

- ~~19.21.~~ When the assurance practitioner is unable to undertake appropriate alternative evidence-gathering procedures, the assurance practitioner shall assess the implications for the assurance report.

Ethical Requirements

- ~~20.22.~~ As required by ASAE 3000, the assurance practitioner shall comply with relevant ethical requirements related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.¹⁸ (Ref: Para ~~A5A6~~)

¹⁵ For the purpose of this ASAE, the term 'significance' is used instead of the ASAE 3000 term 'materiality'.

¹⁶ ASAE 3000, paragraph 12(y)

¹⁷ See ASAE 3000, paragraph 2.

¹⁸ See ASAE 3000, paragraphs Aus 20.1 and ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

Initiation or Acceptance (Ref: Para A7-A22)

~~21.23.~~ The assurance practitioner shall initiate, where the assurance practitioner has the legislative mandate to do so, or accept a performance engagement only when:

- (a) the assurance practitioner has no reason to believe that relevant ethical requirements, including independence, will not be satisfied;
- (b) the assurance practitioner is satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities, including having sufficient time to perform the engagement;
- (c) the preconditions for an assurance engagement are present, as required by ASAE 3000;¹⁹ and
- (d) 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.~~

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

~~24.~~ If the performance engagement is initiated by an engaging party, the assurance practitioner shall agree the terms of engagement, including the assurance practitioner's reporting responsibilities, with the engaging party in writing.

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

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

~~22.26.~~ When establishing whether the preconditions for an assurance engagement are present, the assurance practitioner shall determine, based on their preliminary knowledge of the performance engagement circumstances, whether: ~~(Ref: Para A6-A12)~~

- (a) ~~the activity's performancecies (underlying subject matter) which are~~ outcomes/results 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 activity's performancecies, including that they exhibit the characteristics of suitable criteria,²⁰ 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

¹⁹ See ASAE 3000, paragraph 24.

²⁰ See ASAE 3000, paragraph 24(b)(ii).

- (d) ~~the engagement's has a rational~~ objective is rational²¹ in that the assurance practitioner expects to be able to conclude against it at a meaningful level of assurance after the engagement has been finalised.

~~23-27.~~ When identifying, selecting or developing suitable criteria, or determining whether the identified criteria selected by the engaging party are suitable, the assurance practitioner shall consider whether the identified criteria are reasonable quantitative or qualitative measures of performance and clearly state the performance expectations against which the activity's performance may be assessed. Suitable criteria for a performance engagement shall reflect the overall engagement objective(s), the assertions-performance principle(s) to be addressed (economy, efficiency and/or effectiveness) and have the following characteristics: (Ref: Para A13-A18) (Ref: Para A17-A22)

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

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

~~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. (Ref: Para A19-A20)~~

~~25. If the performance engagement is initiated by a State, Territory or the Commonwealth Auditor General and does not involve an engaging party, then the assurance practitioner shall communicate the terms of engagement with the responsible party. (Ref: Para A21)~~

Quality Management

~~26-28.~~ The assurance practitioner shall implement the firm's policies or procedures as required by ASAE 3000.²²

Professional Scepticism, Professional Judgement and Assurance Skills and Techniques

~~27-29.~~ The assurance practitioner shall apply professional scepticism, exercise professional judgement and apply assurance skills and techniques in planning and performing a performance engagement.²³

²¹ See ASAE 3000, paragraphs 24(b)(vi).

²² See ASAE 3000, paragraphs 31-36.

²³ See ASAE 3000, paragraphs 37-39.

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

Planning (Ref: Para A23-A30)

~~28.30.~~ The assurance practitioner shall plan the performance engagement so that it will be performed in an effective manner as required by ASAE 3000²⁴ ~~and to achieves~~ the objectives ~~as communicated and/or agreed in the terms of engagement of this ASAE.~~ (Ref: Para A2, A22-A25)

~~*Materiality/Significance*~~ (Ref: Para 18(t), A31-A55)

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

~~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 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.

~~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 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. (Ref: Para A26-A34)

~~31.~~ The assurance practitioner shall consider significance when planning and performing the engagement. The assurance practitioner's consideration of significance is matter of professional judgement that is integrated into all aspects of the performance engagement, including when:

- ~~(a) Selecting performance engagement topics and activities to examine;~~
- ~~(b) Defining the objective(s) and evaluation criteria for the engagement;~~
- ~~(c) Determining the nature, timing and extent of procedures;~~
- ~~(d) Evaluating the sufficiency and appropriateness of evidence obtained to confirm if a performance variation exists;~~
- ~~(e) Evaluating the significance of any identified variations in the activity's performance, taken individually and in combination;~~
- ~~(f) Reporting findings;~~
- ~~(g) Formulating the assurance conclusion(s); and~~
- ~~(h) Developing recommendations (if appropriate).~~

~~32.~~ During the performance engagement the assurance practitioner shall reassess the significance of any matter if there is any indication that the basis on which the significance of the matter was determined has changed.

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

²⁴ See ASAE 3000, paragraph 40.

Understanding the Activity and Other Performance Engagement Circumstances

- 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. (Ref: Para A35)~~
- 33. ~~In doing so, the assurance practitioner shall obtain an understanding of 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 of the responsible party. (Ref: Para A36-A39)~~
- 34. ~~The assurance practitioner shall implement non-compliance with laws and regulations procedures as required by ASAE 3000.²⁵~~

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

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

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

Enquiries and Discussion with Appropriate Parties

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

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

36. _____

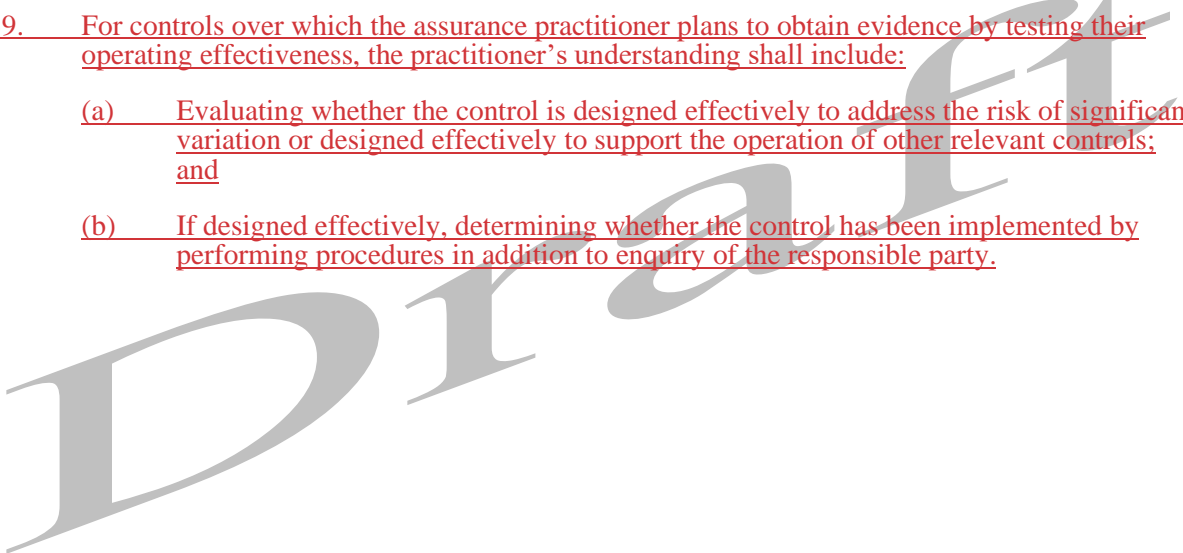
<u>Limited Assurance</u>	<u>Reasonable Assurance</u>
<u>36L. The assurance practitioner shall design and perform risk procedures sufficient to:</u>	<u>36R. The assurance practitioner shall design and perform risk procedures sufficient to:</u>
<u>(a) Identify areas where a significant variation in performance is likely to arise; and</u>	<u>(a) Identify and assess the risks that may cause significant variation in the activity’s performance; and</u>
<u>(b) Thereby, provide a basis for designing and performing further procedures to address those areas and to obtain limited assurance</u>	<u>(b) Thereby, provide a basis for designing and performing further procedures to respond to</u>

²⁵—See ASAE 3000, paragraph 45.

<u>Limited Assurance</u>	<u>Reasonable Assurance</u>
<u>to support the assurance practitioner’s conclusion.</u>	<u>the assessed risks and to obtain reasonable assurance to support the assurance practitioner’s conclusion.</u>

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

- 37. The assurance practitioner shall perform risk procedures sufficient to determine whether internal controls are relevant to the engagement objective(s). The extent to which internal controls are relevant depends on the engagement circumstances and the level of assurance required, and is a matter of professional judgement.
- 38. The assurance practitioner shall obtain an understanding of internal controls the practitioner considers are relevant to the evaluation of the activity’s performance against the identified criteria. This understanding shall include identifying controls designed to address (mitigate) the risk of significant variation from the identified criteria.
- 39. For controls over which the assurance practitioner plans to obtain evidence by testing their operating effectiveness, the practitioner’s understanding shall include:
 - (a) Evaluating whether the control is designed effectively to address the risk of significant variation or designed effectively to support the operation of other relevant controls; and
 - (b) If designed effectively, determining whether the control has been implemented by performing procedures in addition to enquiry of the responsible party.



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

40.

<u>Limited Assurance</u>	<u>Reasonable Assurance</u>
<p><u>40L. Based on the assurance practitioner’s understanding obtained in paragraphs 34-39, the assurance practitioner shall:</u></p> <p><u>(a) identify areas where a significant variation in performance is likely to arise; and</u></p> <p><u>(b) consider the impact of (a) on the appropriateness of the performance engagement objective(s) and the suitability of the identified criteria and, if necessary, seek to amend the objective and/or identified criteria.</u></p>	<p><u>40R. Based on the assurance practitioner’s understanding obtained in paragraphs 34-39, the assurance practitioner shall:</u></p> <p><u>(a) identify and assess the risks of significant variation in performance; and</u></p> <p><u>(b) consider the impact of assessed risks on the appropriateness of the performance engagement objective(s) and the suitability of the identified criteria and, if necessary, seek to amend the objective(s) and/or identified criteria.</u></p>

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

35.41.

<u>Limited Assurance</u>	<u>Reasonable Assurance</u>
<p><u>41L. The assurance practitioner shall:</u></p> <p><u>(a) design further procedures to address the areas identified in paragraph 40L(a); and</u></p> <p><u>(b) perform further procedures and obtain sufficient appropriate evidence to support the assurance practitioner’s limited assurance conclusion.</u></p>	<p>41R. Based on the assurance practitioner’s understanding obtained in paragraphs 32, 33 and 34 the assurance practitioner shall: (Ref: Para A40-A42)</p> <p>(a) identify and assess the risks of material variation in the activity’s performance to be concluded upon;</p> <p>(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;</p> <p>(c)(a) design and perform assurance further procedures to respond to the assessed risks identified in paragraph 40R35(a); and</p> <p>(d)(b) perform further procedures and obtain sufficient appropriate evidence to support the assurance practitioner’s reasonable assurance conclusion.</p>

<u>Limited Assurance</u>	<u>Reasonable Assurance</u>
	<p data-bbox="810 309 1380 369"><u>In designing and performing further procedures, the practitioner shall:</u></p> <p data-bbox="817 394 1374 539">(a) <u>consider whether the practitioner intends to obtain evidence about the operating effectiveness of controls in determining the nature, timing and extent of other procedures; and</u></p> <p data-bbox="817 564 1353 651">(b) <u>obtain more persuasive evidence the higher the practitioner’s assessment of risk.</u></p>

Revision of Risk Assessment in a Reasonable Assurance Engagement

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

Performing Modified and/or Additional Procedures in a Limited Assurance Engagement (Ref: Para A89-A91)

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

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

Work Performed by an Assurance Practitioner’s Expert

36.44. When the assurance practitioner plans to use the work of an assurance practitioner’s expert, the assurance practitioner shall comply with the requirements in ASAE 3000.²⁶

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

37.45. If the assurance practitioner plans to use information prepared by another party as evidence, the assurance practitioner shall comply with the requirements of ASAE 3000.²⁷

Written Representations (Ref: Para A92-A94)

38.46. The assurance practitioner shall **request and** endeavour to obtain written representations **from the responsible party**, as appropriate for the performance engagement, ~~from the responsible party or parties.~~ (Ref: Para A43-A45)

²⁶ See ASAE 3000, paragraph 52.
²⁷ See ASAE 3000, paragraphs 53-55.

Evaluation of EvidenceEvaluating the Impact of Identified Variations (Ref: Para A95) (Ref: Para A46)

~~39.47.~~ The assurance practitioner shall evaluate ~~the impact of whether the~~ identified variations in the ~~activity's entity's~~ performance ~~of the activity which are material~~ significant, individually or in combination, ~~on the assurance practitioner's conclusion~~. The assurance practitioner shall ~~describe~~ consider the ~~extent and size and severity of the~~ impact ~~or potential impact~~ of those variations and conclude whether the activity ~~was~~ partially performed or ~~did not performed~~ ~~as evaluated~~ against the identified criteria ~~in the assurance report~~.²⁸ (Ref: Para A46)

~~48.~~ In making this evaluation, the assurance practitioner shall consider whether individual variations in performance identified during the engagement (other than those that are clearly trivial) have characteristics, for example, a root cause or a systemic issue, that indicate the combined effect of individual variations is likely to be significant.

Subsequent Events (Ref: Para A96--A97)

~~40.49.~~ When relevant to the performance engagement, the assurance practitioner shall consider the effect on the activity's performance of events that become known to the assurance practitioner up to the date of the assurance report, ~~and~~ ~~The practitioner~~ shall respond appropriately to facts that become known to the assurance practitioner after the date of the assurance report, that, had they been known to the assurance practitioner at that date, may have caused the assurance practitioner to amend the assurance report. The extent of consideration of subsequent events depends on the assurance practitioners' judgement of the potential for such events to affect the ~~performance of the activity's~~ performance and to affect the appropriateness of the assurance practitioner's conclusion. However, the assurance practitioner has no responsibility to perform any procedures regarding ~~the activity's~~ performance ~~of the activity~~ after the date of the assurance report. (Ref: Para A47 A48)

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

~~41.50.~~ The assurance practitioner shall evaluate ~~the whether sufficient and appropriate~~ ~~sufficiency and appropriateness of the evidence~~ has been obtained in the context of the performance engagement from the procedures performed. If there is not sufficient or appropriate evidence, ~~and if necessary, attempt to obtain further evidence~~ the assurance practitioner shall perform procedures to obtain further evidence to be able to form a conclusion on the activity's performance. If the assurance practitioner is unable to obtain ~~the~~ necessary further evidence, the assurance practitioner shall consider the implications for the assurance practitioner's conclusion.²⁹ 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 against aspects of the engagement objective(s) or engagement objective(s) as a whole~~.

~~42.51.~~ The assurance practitioner shall form a conclusion(s) about ~~whether the~~ activity's performance ~~against the engagement objective(s) 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 ~~47-50~~ 39, 40 and 41.

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

~~43.52.~~ The assurance report shall be in writing and shall contain a clear expression of the assurance practitioner's reasonable ~~or limited~~ assurance conclusion about the activity's performance against the engagement objective(s), or explain why this was not possible ~~communicated and/or agreed in the terms of the performance engagement~~. (Ref: Para A49)

²⁸ The equivalent conclusion in ASAE 3000 is a qualified ("except for") or adverse conclusion.

²⁹ The equivalent conclusion in ASAE 3000 is a qualified conclusion ("except for") or disclaimer of conclusion.

~~44.53.~~ The assurance practitioner's conclusion shall be clearly identified in the assurance report, separated from findings, recommendations and other sections of the assurance report containing information or explanations included in the report that are not intended to affect the assurance practitioner's conclusion, including findings and recommendations. (Ref: Para A52-A54)

54. The assurance report shall include information necessary to address the engagement objective(s), and be sufficiently detailed to allow report users to understand the activity's performance and the assurance practitioner's conclusion(s), findings and recommendations (if appropriate).

Assurance Report Content (Ref: Para A104-A121)

45.55. 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: (Ref: Para A50-A51)

- (a) A title or title page, indicating that it is an independent assurance report. (Ref: Para A102)
- (b) An addressee.
- (c) Identification of the scope of the performance engagement including:
 - ~~(i)~~ the responsible party or (parties) and a description of their responsibilities;
 - ~~(ii)~~ (i) the activity's performance which was the subject matter of the performance engagement; (Ref: Para 18(b))
 - ~~(iii)~~ (ii) a description of the engagement objective(s) of the performance engagement; (Ref: Para 18(g))
 - ~~(iii)~~ identification of the criteria for evaluating the activity's performance of the activity, and their source the party specifying those criteria, if it was not the assurance practitioner; (Ref: Para 18(e), 27, A111)
 - (iv) if relevant, the date of, or period(s) covered by, the report;
 - (v) any activities the assurance practitioner has specifically excluded from the scope; and
 - ~~(v)~~ (vi) if appropriate, a description of any significant inherent limitations associated with the evaluation of the activity's performance against the identified criteria; and
 - ~~(vi)~~ the assurance practitioner's responsibilities.
- ~~(d)~~ Identification or description of the level of assurance obtained/provided by the assurance practitioner. (Ref: Para A115)
- ~~(d)~~ a statement that the performance engagement was performed in accordance with ASAE 3500 *Performance Engagements*;
- ~~(e)~~ a statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding;
- ~~(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;
- ~~(e)~~ Identification of the responsible party(ies) and a description of their responsibilities. (Ref: Para 18(r))

~~(g)~~(f) The assurance practitioner's conclusion(s) against the engagement objective(s) which: (Ref: Para A98, A114-A118) about the performance, in terms of economy, efficiency and/or effectiveness, of the activity as evaluated against the identified criteria;

(i) in a reasonable assurance engagement, shall be expressed in a positive form.

(ii) in a limited assurance engagement, shall be expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the assurance practitioner's attention to cause the practitioner to believe that the responsible party did not perform the activity in accordance with the identified criteria.

~~(h)~~(g) When the assurance practitioner ~~has been~~was unable to obtain sufficient appropriate evidence (a scope limitation exists), 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 (Ref: Para 58-59):

(i) A description of the ~~extent and impact of those matter(s)~~causes and consequences of those findings; and (Ref: Para A112-A113)

(ii) The assurance practitioner's conclusion that ~~there was not sufficient or appropriate evidence to conclude on the responsible party's performance of: 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.~~

a. certain aspects of the activity; or (Ref: Para A116(a))

b. the activity as a whole. (Ref: Para 116(b))

~~(h)~~ When the assurance practitioner has identified significant variations in the activity's performance, the assurance reports shall contain:

(i) A description of the causes and consequences of those findings; and (Ref: Para A112-A113)

(ii) The assurance practitioner's conclusion that either the responsible party:

a. did not perform the activity in accordance with the identified criteria in certain significant respects; or (Ref: Para A117(a))

b. did not perform the activity in accordance with the identified criteria in all significant respects. (Ref: Para A117(b))

(i) The basis for the assurance practitioner's conclusion, including: (Ref: Para A119-A120)

(i) A statement that the engagement was conducted in accordance with ASAE 3500 *Performance Engagements*; (Ref: Para A119)

(ii) An informative summary of the work performed by the practitioner as the basis for the practitioner's conclusion. In the case of a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential to understanding the practitioner's conclusion. For a limited assurance engagement, the summary of the work performed shall state that: (Ref: Para A100, A120)

a. The procedures performed in a limited assurance engagement vary in nature and timing from, and are lesser in extent than for, a reasonable assurance engagement; and

b. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed:

(iii) A statement that identifies the assurance practitioner's responsibilities or refers to a section in the assurance report that describes the practitioner's responsibilities. *

(iv) A statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. *

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

(+) (j) Signature of the assurance practitioner, the Audit Office or location in the jurisdiction where the assurance practitioner practices, and the date of the assurance report.

56. If appropriate, the assurance practitioner shall provide recommendations intended to address, or are related to, the assurance practitioner's findings from the engagement. (Ref: Para A121)

46.57. If the assurance practitioner is required to conclude on other subject matters under different AUASB Standards in conjunction with an engagement to report under this ASAE, the assurance report shall include a separate section for each subject matter in the assurance report, clearly differentiated by appropriate section headings. (Ref: Appendix 4)

Scope Limitation (Ref: Para 55(g))

47.58. A limitation on the scope of the assurance practitioner's work may be imposed by the terms of the engagement, if the engagement was initiated by an engaging party, or by the circumstances of the particular engagement. When the limitation is imposed by the terms of the engagement, and it is likely to prevent the assurance practitioner from reaching a conclusion, the engagement shall not be accepted, unless required to do so by law or regulation.

48.59. When a scope limitation is imposed by the circumstances of the particular engagement, the assurance practitioner shall attempt to perform alternative procedures to overcome the limitation. When a scope limitation exists and remains unresolved, the wording of the assurance practitioner's ~~conclusion shall describe the limitations on their engagement and the matters on which they are unable to conclude~~ report shall comply with paragraph 55(g). (Ref: Para A54-A55)

Other Communication Responsibilities

49.60. If during the course of the performance engagement the assurance practitioner identifies any ~~material-significant~~ 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.

50.61. The assurance practitioner shall consider whether, pursuant to the terms of the performance engagement, if applicable, and other engagement circumstances or legislative requirements, any matter has come to the attention of the assurance practitioner that is to be communicated with Parliament, the responsible party, the engaging party (if applicable) or others, as required by ASAE 3000.³⁰

³⁰ See ASAE 3000, paragraph 78.

~~51-62.~~ The assurance practitioner shall determine whether there is a responsibility or legislative requirement for the assurance practitioner to report the occurrence or suspicion of fraud or other misconduct to a party outside the entity, including Parliament, a regulator or government agency. Any such reporting shall be in accordance with the relevant legislation.

Documentation (Ref: ~~Para A122-A123~~)

~~52-63.~~ The assurance practitioner shall prepare documentation in accordance with ASAE 3000.³¹ In documenting the nature, timing and extent of procedures performed as required by ASAE 3000, the assurance practitioner shall record: ~~(Ref: Para A56-A58)~~

- (a) the identifying characteristics of the activity's performance being tested;
- (b) who performed the work and the date such work was completed; and
- (c) who reviewed the work performed and the date such review was performed.

* * *

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³¹ See ASAE 3000, paragraphs 79-83.

Application and Other Explanatory Material

Introduction (Ref: Para 3-16)

A1. ~~Direct engagements share many features of an attestation engagement undertaken under ASAE 3000. However, direct engagements also have unique features that are different from those of attestation engagements. For example, performance engagements undertaken in the public sector are ordinarily direct engagements, that have the following features: (Ref: Para 18(d)(f))~~

- ~~• The party responsible for the activity's performance being reported on does not make a public assertion or statement on the activity's performance as evaluated against the identified criteria.~~
- ~~• Pursuant to their legislative mandate, the assurance practitioner decides the:
 - ~~○ activity's performance to be evaluated; and~~
 - ~~○ nature and scope of the activity's performance to be reported on.~~~~
- ~~• The assurance practitioner identifies or develops the evaluation criteria against which the activity's performance is assessed.~~
- ~~• The assurance practitioner then evaluates the activity's performance (the subject matter) against the identified criteria and presents the outcome of the evaluation (the resulting subject matter information) as part of, or accompanying, the assurance report.~~

~~A1.A2. If the assurance practitioner initiates or accepts a limited assurance engagement on the performance of to evaluate an activity's performance, 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 is likely to still meet the users' needs; and~~
- ~~(c) the assurance conclusion clearly communicates that the procedures performed vary in nature and timing from, and are ~~less~~er in extent than for, a reasonable assurance engagement and so the level of assurance obtained ~~is~~ may be 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. (Ref: Para 28)~~

~~A3. Performance engagements may address a broad range of activities including Elements of an activity's performance that may be considered in a performance engagement include:~~

- ~~(a) systems for planning, budgeting, authorisation, control and evaluation of resource allocation;~~
- ~~(b) systems ~~for established and maintained to ensure~~ compliance with ~~an entity's mandate as expressed in policies or relevant~~ legislation, policies or procedures;~~
- ~~(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)(c) — governance structures, including the assignment of responsibilities and accountability;~~
- ~~(d) — identification and management of risks;~~
- ~~(e) — reporting on resources used; and~~
- ~~(f) — reporting on outputs, outcomes and the achievement of objectives.~~
- ~~(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~~ and/or ethical aspects of:
 - (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.

Definitions

Performance Principle (Ref: Para 18(n))

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

- Economy—The ~~performance~~ principle relating to the minimisation of the costs of resources, within the operational requirements of timeliness and availability of required quantity or quality.
- Effectiveness—The ~~performance~~ principle relating to the extent to which the intended objectives or outcomes of an activity are achieved.

- Efficiency—The performance principle relating to minimising the inputs employed to deliver outputs of an activity at the appropriate quality and quantity and when the outputs are needed.
- Ethics—The principle relating to the extent to which the proposed use of public resources is consistent with the core beliefs and values of society. Where a person behaves in an ethical manner it could be expected that a person in a similar situation would undertake a similar course of action. For the approval of proposed commitments of relevant money, an ethical use of resources involves managing conflicts of interests, and approving the commitment based on the facts without being influenced by personal bias. Ideally, ethical considerations are balanced with considerations of whether the use will also be efficient, effective and economical.³²
- Equity—The principle relating to fairness and impartiality in the use of public resources and/or the availability of public services.³³ Equity is often treated as an element of ethics.
- Probity—The principle relating to evidence of ethical behaviour, and can be defined as complete and confirmed integrity, uprightness and honesty in a particular process.³⁴ As there may be some overlap between probity and ethics, probity is often treated as an element of ethics.
- Sustainability—The principle relating to sustainable development strategies or management of sustainable development and environmental issues in meeting the needs of the present generation without compromising the ability of future generations meeting theirs.³⁵

Ethical Requirements (Ref: Para 22-20)

A5.A6. Relevant ethical requirements include the following fundamental principles with which the assurance practitioner is required to comply:

- integrity;
- objectivity, including independence;
- professional competence and due care;
- confidentiality; and
- professional behaviour.

Initiation or Acceptance (Ref: Para 23-27-24-25)

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

A7. The terms of the performance engagement normally identify:

- the engagement objective(s) of the engagement;
- whether the engagement is a reasonable or limited assurance engagement;
- the activity's performance to be evaluated in the engagement;

³² The Australian Government Department of Finance, Public Governance and Accountability Act 2013, PGPA Glossary.

³³ Based on Macquarie Dictionary definition of 'equity'.

³⁴ The Australian Government Department of Finance, Ethics and Probity in Procurement: Principles (17 May 2021).

³⁵ Based on the definition of the World Commission on Environment and Development, *Our Common Future*, 1987 ('The Brundtland Report'). The terms 'sustainability' and 'sustainable development' are often used interchangeably.

- (d) the period to be covered by the engagement;
- (e) the performance principle(s) to be addressed in evaluating performance;
- (f) suitable criteria, in so far as the criteria have been identified, against which the activity's performance will be evaluated;
- (g) the intended users of the assurance report;
- (h) the base elements of the assurance report; and
- (i) any other matters required by law or regulation to be included in the terms of engagement.

A8. The terms of engagement may also seek the responsible party's agreement that they acknowledge and understand their responsibility to provide the assurance practitioner with:

- (a) access to all information, such as records, documentation and other matters of which the responsible party is aware are relevant to the activity's performance;
- (b) all additional information that the assurance practitioner may request from the responsible party for the purposes of the performance engagement; or
- (c) unrestricted access to persons engaged in the activity from whom the assurance practitioner determines it necessary to obtain evidence.

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

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

A6-A10. In the public sector, if a performance engagement is initiated by the assurance practitioner, some of the preconditions for the assurance engagement may be assumed to be present if they are set out in legislation, such as the roles and responsibilities of the responsible party and the right of access to information by the assurance practitioner. (Ref: Para 9)

A7-A11. When initiating or accepting a performance engagement, in order to satisfy themselves that those persons who are to perform the performance engagement collectively have the appropriate competence and capabilities, including having sufficient time to perform the engagement, the assurance practitioner may need to either assemble a multi-disciplinary team or be a specialist in the relevant discipline.

A8-A12. When multi-disciplinary teams are used in a performance engagement, adequate direction and supervision of engagement teams and review of their work are particularly important so that the engagement team members' different perspectives, experience and specialties are appropriately used. It is important that all engagement team members understand the objectives of the particular performance engagement and the terms of reference of work assigned to them. Adequate direction and supervision of engagement teams and review of their work are important so that the work of all engagement team members is executed properly and is in compliance with this ASAE and meets the quality management requirements of ASAE 3000.

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

~~A9.~~A13. When assessing the appropriateness of the activity's performance to be evaluated as the subject matter of the performance engagement, the assurance practitioner considers whether the:

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

~~A10.~~A14. If after initiating or accepting the performance engagement, the assurance practitioner concludes that the activity's performance is not an appropriate subject matter, the assurance practitioner assesses whether to:

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

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

~~A11.~~A16. In a performance engagement initiated by the assurance practitioner, the identification of the subject matter and development of the engagement objective(s) and criteria is revised and refined as:~~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.~~

- more information on the subject matter is gathered; and
- the assurance practitioner better understands the needs of the intended 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 A11 of this ASAE, the assurance practitioner needs to consider the implications for the assurance report.

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

~~A13.~~A17. Criteria are the measures used to ~~assess~~evaluate the ~~activity's~~ 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 identified criteria are suitable.

~~A14.A18. 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. Regardless of the source, the assurance practitioner documents their assessment of the suitability of the identified criteria. The suitability of the criteria is determined within the context of the engagement circumstances, including the performance principle(s) to be addressed.~~

~~A15.A19. 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.A20. 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 For some engagements criteria may have been developed to meet the needs of specific users. In this case the assurance report may state, if it is relevant to the intended users:~~

- that the criteria are not embodied in laws or regulations, or issued by authorised or recognised bodies of experts that follow a transparent due process; and
- that the assurance report is only for the use of the intended users and for their purposes.

~~A17.A21. If after initiating or accepting the performance engagement, the assurance practitioner concludes that the identified criteria are not suitable, the assurance practitioner may either:~~

- identify or develop suitable criteria;
- seek to change the terms of the performance engagement, if necessary, such as when the terms have been agreed with an engaging party; or
- withdraw from or discontinue the performance engagement.

~~A18.A22. In the event that the assurance practitioner is unable to change the terms of, or withdraw from or discontinue, the performance engagement, the assurance practitioner considers the implications for the assurance report.~~

~~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 performance 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, 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 30-40-28-31)

~~A23. In the public sector, Auditors-General regularly receive topic suggestions for performance engagements from members of Parliament, executive government and the public. Auditors-General may also select topics that align with government policy objectives and reform agendas to assess progress and impacts. Auditors-General ordinarily adopt a strategic and risk-based approach to selecting performance engagement topics that are significant and auditable, and consistent with their legislative mandate. Once an Auditor-General has selected an engagement topic, the assurance practitioner plans the performance engagement.~~

~~A22-A24. — Planning involves developing an overall strategy for the scope, emphasis, timing and conduct of the performance engagement. The performance engagement plan consists of a detailed approach for the nature, timing and extent of evidence-gathering procedures to be undertaken and the reasons for selecting them. Ordinarily, adequate planning:~~

- ~~• helps to devote appropriate attention to important areas of the activity's performance 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;~~
- ~~• assists the assurance practitioner to properly assign work to performance engagement team members, and facilitates the direction and supervision of engagement team members and the review of their work; and~~
- ~~• assists, where applicable, the coordination of work done by other assurance practitioners and experts.~~

~~A23-A25. — The nature and extent of planning activities will vary with the performance engagement circumstances, for example the size and complexity of the activity and the assurance practitioner's previous experience with it. Examples of the main matters to be considered include:~~

- ~~• the terms of the performance engagement.~~
- ~~• the characteristics of the activity and the identified criteria.~~
- ~~• the performance engagement process and possible sources of evidence.~~

- the assurance practitioner's understanding of the activity and other performance engagement circumstances.
- identification of intended users and their needs, and consideration of **materiality significance in the context of the engagement.**
- ~~and~~ the assessment of risk.
- personnel and expertise requirements, including the nature and extent of involvement by internal and external experts.

~~A24.~~A26. Planning is not a discrete phase, but rather a continual and iterative process throughout the performance engagement. As a result of unexpected events, changes in conditions, or the evidence obtained from the results of evidence-gathering procedures, the assurance practitioner may need to revise the overall strategy and performance engagement plan and, as such, the resulting planned nature, timing and extent of further evidence-gathering procedures.

Engagement Objective(s)³⁶ (Ref Para 18(g))

~~A27.~~ The objectives of a performance engagement ~~may be expressed in various ways and are often often~~ presented as a statement of purpose or question, ~~s~~ which ~~references are considered in the context of the responsible party's responsibilities with respect to, the subject matter and the performance principle(s) to be addressed (for example, economy, efficiency, and effectiveness, and/or ethics).~~ 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. (Ref: Para 28)

~~A28.~~ The engagement objective is framed in a way that allows for an unambiguous conclusion to be reached as to whether the responsible party performed, or did not perform, the activity in accordance with the identified criteria.

~~A25.~~A29. In planning the performance engagement, if the scope of the engagement is based on an overall objectives, then the assurance practitioner may identify more precise sub-objectives/questions (or lines of enquiry) from which they can identify, select or develop the criteria against which the activity's performance can be evaluated. Such sub-objectives/questions are typically thematically related, complementary, not overlapping and collectively exhaustive in addressing the engagement objective.

~~A30.~~ Ideally, each engagement would have one overall objective that provides a clear focus for the engagement. However, for more complex engagements, the assurance practitioner may choose to develop several engagement objectives, which do not always need to be broken down into sub-objectives.

Materiality Significance³⁷ (Ref Para 31-33)

~~A26.~~ Professional judgement about materiality is made in light of surrounding circumstances, but is ~~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. If the identified criteria do not include~~

³⁶ See INTOSAI Standard ISSAI 300, paragraph 25.

³⁷ INTOSAI Standard ISSAI 3000, paragraphs 83-85 used as starting point in developing this section. Also see INTOSAI Standard ISSAI 300, paragraph 33, and INTOSAI Guidance GUID 3910, paragraphs 109-113.

~~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) have a reasonable knowledge of the activity, and a willingness to study the assurance report with reasonable diligence;~~
- ~~(b) 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) understand any inherent uncertainties involved in measuring or evaluating the activity; and~~
- ~~(d) 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. Variations in performance, including omissions, are considered to be significant 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. 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:~~

- ~~• the number of persons or entities affected by the subject matter.~~
- ~~• 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.~~
- ~~• the wording chosen with respect to the activity that is expressed in narrative form.~~
- ~~• the characteristics of the presentation adopted for the assurance report when the identified criteria allow for variations in that presentation.~~
- ~~• 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.~~
- ~~• whether a variation affects compliance with law or regulation.~~
- ~~• in 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.~~
- ~~• whether a variation is the result of an intentional act or is unintentional.~~
- ~~• 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.~~

- ~~• 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.~~
- ~~• when a threshold or benchmark value has been identified, whether the result of the procedure deviates from that value.~~
- ~~• 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:~~

- ~~• expressed numerically; or~~
- ~~• 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:~~

~~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.~~

~~A31. For the purpose of this ASAE, significance may be viewed as the relative importance of a matter, within the context in which it is being considered, that could potentially influence the decisions of the intended users of the assurance report.~~

~~A32. For the purpose of this ASAE, the term 'significance' is used instead of the ASAE 3000 term 'materiality'. The concept of significance is considered more useful in the context of a performance engagement. It can be applied more flexibly at different stages of the engagement and is considered more helpful in ensuring that the assurance practitioner selects the right activities, criteria and findings to report, and provide assurance reports that are relevant and useful for the intended users. Significance may also be more meaningful to the lay person reading the assurance report, especially when communicated in terms of the causes and consequences of a finding (that is, the size and severity of the impact or potential impact of the finding).~~

~~A33. Consideration of significance is a matter of professional judgement and depends on the assurance practitioner's perception of the intended users' needs and interests. Since the~~

subject matter of performance engagements can vary broadly, that perspective may vary from one engagement to another.

A34. In judging the relative importance of a matter, the assurance practitioner considers the:

- nature of the impact(s), which may relate to monetary value or the impact on the environment, society, politics, culture and the economy;
- size and severity of the impact or potential impact if it can be quantified; and
- likelihood of an impact occurring, which may be expressed using general terms (likely, very likely) or more precisely (for example, the probability of something occurring).

A35. The inherent characteristics of an item may render a matter significant by its very nature. A matter may also be significant because of the context in which it occurs. Relevant considerations may include economic, environmental, political, cultural and other societal challenges at local, regional and global levels related to the activity's performance examined, as well as compliance with laws and regulations.

A36. Impacts may include negative and positive impacts, could be intended or unintended and may impact the short-term or long-term. The assurance practitioner also takes into account that impacts may change over time as activities and context evolve.

A37. What is considered significant will depend on the perspective of the intended users, which may vary over time. In identifying individuals and groups whose interests are or could be affected by the assurance report, the assurance practitioner also takes into account that intended users may include individuals or groups who may not be able to articulate their views (for example, future generations) but whose interests are affected or could be affected. For the same engagement, the intended users may also be different for each of the identified criteria.

A38. It may not always be possible for the assurance practitioner to identify all those who will read the assurance report, particularly where the assurance report is publicly available. In such cases, particularly when potential users are likely to have a broad range of interests in the assurance report, intended users may be limited to major stakeholders with significant and common interests. In the public sector, Parliament and the responsible party is likely to be the primary users of assurance reports on performance prepared by Auditors-General. Other major stakeholders may include, government, regulators, lobby groups and representative organisations.

A39. When communicating significant variations in assurance reports, it may not always be reasonable for the assurance practitioner to assume that all of the intended users such as members of Parliament or the general public:

- (a) have a reasonable knowledge of the activity or a willingness to study the assurance report with reasonable diligence;
- (b) understand that the assurance practitioner has applied the concept of significance in evaluating and obtaining assurance regarding the activity's performance, and have an understanding of any significance concepts included in the identified criteria; and
- (c) understand any inherent uncertainties involved in evaluating the activity's performance.

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

A40. Professional judgements about significance are made in light of surrounding circumstances but are not affected by the level of assurance. That is, for the same intended users and purpose,

the assurance practitioner applies the same considerations in both limited assurance and reasonable assurance engagements when considering the significance of matters.

A41. Due to the importance of using professional judgement in considering the significance of matters and concluding on significant findings, the assurance practitioner's documentation should be sufficiently complete and detailed, and include the rationale in support of any judgements made and conclusions reached.

Consideration of significance when selecting activities to examine

A42. Effective performance engagements may have considerable impact. Assurance reports on performance provide new information, analysis or insights and, where appropriate, recommendations for improvement. In the public sector, this information may play a role in improving public sector performance and supporting accountability and transparency.

A43. A significant activity is one that the assurance practitioner judges:

- (a) to be important to the intended users of an assurance report on the activity's performance; and
- (b) for which new insights or more accessible information may influence the decisions made by those users.

A44. The process to evaluate and select activities for examination, may include the following steps:

- (a) identify actual and potential impacts of the activity and the engagement;
- (b) assess the significance of the impacts applying suitable criteria; and
- (c) prioritise the impacts based on their significance.

A45. To understand the significance of an activity, the assurance practitioner may perform quantitative and qualitative analysis. The practitioner may also need to consult with relevant internal or external experts and relevant stakeholders.

A46. The assurance practitioner may assess the significance of, and risks associated with, public sector activities and prioritise engagements by considering factors such as:

- Economic and financial magnitude—the economic contribution or impact of the activity may be significant.
- Social, public safety, political and/or environmental impact—activities affecting a large segment of the population or vulnerable sections of a population, or which may impact environmental sustainability, may be judged to be more significant.
- Visibility—the extent of interest shown in an activity or aspects of an activity by, for example, the legislature, regulatory bodies or the public, may indicate the importance of the activity to users. For example, a large number of complaints relating to the activity.
- Nature, size and complexity of the activity—an increase in the complexity of an entity's activities, for example, increased variety and type of operations, functions and programmes may increase the risk that the entity does not achieve its objectives and goals or that they are not achieved in an efficient or economical manner.
- Likely impact of the performance engagement (added value expected from the engagement)—engagements that offer more opportunities to have an impact, may be prioritised.
- Impact of the activity or failure of an activity on other areas within government, including in the areas of compliance, governance, transparency and accountability.

Significance in planning and performing the engagement

- A47. Given limited resources and time, a performance engagement cannot focus equally on all aspects of a significant activity's performance during the engagement. Understanding what aspects of the activity's performance may be significant to the intended users may assist the assurance practitioner in focusing their efforts and in applying professional judgement when considering the significance of any identified variations in performance.
- A48. Scoping the proposed engagement to focus on significant aspects of the activity's performance, that is, the areas which will potentially add the most value, will support the development of an engagement objective(s).
- A49. For a performance engagement to be efficient and effective, which in this context means concluding against the engagement objective(s) and satisfying the needs of the intended users, it is important that the assurance practitioner assess and prioritise the most appropriate questions (lines of enquiry) and criteria to examine. For example, they may assess the risk of significant variations as either high, medium or low for each potential question/criteria. This assessment will require a good understanding of the activity and the information needs of the intended users of the assurance report.
- A50. In some instances, there may be no tolerance for variations in relation to significant criteria.
- A51. In conducting the performance engagement, the assurance practitioner considers the significance of the information that is being collected and the potential results of the analysis undertaken. The practitioner applies professional judgement to ensure that work is focused on significant aspects of the activity's performance being examined.

Significance in formulating and reporting findings, conclusions and recommendations

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

- Whether a variation relates to transparency or accountability.
- If the likely cost of correcting an issue is greater than the benefit to be derived, significance may be questionable.
- Minor variations from several criteria may signal minor problems or may be indicative of a problem (or theme) of greater significance that may need to be reported as a significant variation.
- The nature of a variation, for example, the nature of observed variations from a control relevant to the activity's performance.
- Whether a variation is significant having regard to the assurance practitioner's understanding of known previous communications to users, for example, in relation to the expected outcome of the evaluation of the activity's performance.
- Whether a variation relates to the relationship between the responsible party and the engaging party, or their relationship with other parties.
- When a threshold or benchmark value has been identified, whether the result of the procedure deviates from that value.
- When the activity is a governmental program or public sector entity, whether a particular finding is significant with regard to the nature, visibility and sensitivity of the program or entity.

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

Understanding the Activity and Other Performance Engagement Circumstances (Ref: Para ~~34-32~~ 33)

~~A35-A56.~~ Obtaining an understanding of the activity and other performance engagement circumstances is an essential part of planning and conducting a the performance engagement. That understanding It provides the assurance practitioner with a frame of reference for exercising professional judgement throughout the ~~performance~~ engagement. For example, when:

- Defining a rational engagement objective and suitable evaluation criteria.
- Determining whether evidence needed to support the practitioner's conclusion is available.
- Understanding the implications of applicable laws and regulations on the activity's performance.
- ~~considering the characteristics of the activity.~~
- ~~assessing the suitability of criteria.~~
- ~~assessing systems established and maintained for ensuring compliance with an entity's mandate or internal controls as expressed in policies and legislation.~~
- Considering the factors that, in the assurance practitioner's professional judgement, are important in directing the engagement team's efforts, identifying including where special consideration may be necessary, for example factors indicative of wastage or fraud, and (for example, the need for specialised skills or the work of an expert).
- Establishing and evaluating the continued appropriateness of quantitative levels of performance (where appropriate), and considering qualitative materiality factors or benchmarks that may impact the assurance practitioner's consideration of significance.
- Developing expectations for use to be applied when undertaking analytical procedures.

- ~~Use of~~Using data ~~analytical analysis~~ tools to undertake the engagement.
- ~~Requesting evidence that is relevant to the engagement objective(s) and identified criteria.~~
- ~~Evaluating evidence, including the reasonableness of the responsible party's oral and written representations.~~
- ~~Designing and undertaking further evidence-gathering procedures to reduce the risk of an incorrect conclusion to an appropriate acceptable low level.~~
- ~~Reporting the findings, conclusions and recommendations in an assurance report~~
- ~~Evaluating evidence, including the reasonableness of the responsible party's oral and written representations.~~

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

- (a) For a limited assurance engagement, the assurance practitioner obtains an understanding of the activity sufficiently to identify areas where a significant variation in the activity's performance is most likely to arise. In a reasonable assurance engagement, a more in-depth understanding is required to both identify and assess the risks of significant variation. The assurance practitioner will use professional judgement to determine whether enough has been done to obtain and document the necessary understanding given the level of assurance.
- (b) Although in some limited assurance engagements the practitioner may identify or obtain an understanding of internal controls relevant to the activity's performance, this is often not the case.

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

A58. Although the assurance practitioner is not required to perform any further procedures regarding an entity's compliance with laws and regulations in addition to that specified in paragraph 36(a) of this ASAE, the practitioner shall remain alert to the possibility that procedures performed during the performance engagement may bring instances of non-compliance or suspected non-compliance with laws and regulations to the practitioner's attention. The assurance practitioner may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations.³⁸

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

A59. The engagement circumstances affect the degree to which each of the components of engagement risk is relevant to the engagement, in particular:

- The nature of the activity reported on. For example, the concept of control risk may be more relevant for engagement objectives related to the effectiveness/efficiency of a system or process (for example to monitor and report on performance), than for objectives related to the outcome of a program or process or the existence of a physical condition.
- Whether a reasonable assurance or a limited assurance engagement is being performed. For example, in limited assurance engagements the assurance practitioner

³⁸ See ASAE 3000, paragraphs A102 and A195-A199.

may often decide to obtain evidence by means other than testing of controls, in which case consideration of control risk may be less relevant than in a reasonable assurance engagement to report on the same activity's performance.

- A60. Risk procedures are part of an iterative and dynamic process. Initial expectations may be developed about areas where significant variations are likely to arise (in a limited assurance engagement) or risks of significant variation (in a reasonable assurance engagement), which may be further refined as the assurance practitioner progresses through the engagement, or if new information is obtained. Risk procedures by themselves do not provide sufficient appropriate evidence on which to base the assurance conclusion.
- A61. The assurance practitioner may perform further procedures (see 'Designing and Performing Further Procedures' below) concurrently with risk procedures when it is efficient to do so.
- A62. The nature and extent of risk procedures will vary based on the nature and circumstances of the entity (for example, the formality of the entity's policies or procedures, processes and systems), the nature and complexity of the activity, the identified criteria, and the characteristics of the events or conditions that could give rise to significant variations. The practitioner uses professional judgement to determine the nature and extent of the risk procedures to be performed to meet the objectives of this ASAE to the level of assurance to be obtained.
- A63. Risk procedures may include the following:
- (a) Enquiries of appropriate parties;
 - (b) Analytical procedures;
 - (c) Observation; and
 - (d) Inspection.
- A64L. In a limited assurance engagement, identifying the areas where a significant variation in the activity's performance is likely to arise enables the assurance practitioner to focus procedures on those areas. Risk procedures for a limited assurance engagement would ordinarily be limited to enquiries of appropriate parties, analytical procedures and necessary documentation review. However, there may be circumstances where the assurance practitioner may consider it effective or efficient to design and perform other procedures.
- A65L. In rare circumstances, the assurance practitioner's risk procedures may not identify any areas where a significant variation is likely to arise. Irrespective of whether any such areas have been identified, the practitioner is required to design and perform procedures to obtain a meaningful level of assurance³⁹. In such cases, the practitioner may perform additional risk procedures or design and perform further procedures in relation to significant areas of the engagement.
- A66. Based on the risk procedures performed, the assurance practitioner will be able to make an informed decision about whether the identified criteria are best addressed using a limited or reasonable assurance approach. For example, where risk procedures identify significant levels of engagement risk, a limited assurance engagement may not be suitable because:
- a limited level of assurance may not be meaningful to the users of the assurance report; or
 - there may no longer be an efficiency advantage for the assurance practitioner in performing a limited assurance engagement because the assurance practitioner may have to perform considerable additional work under paragraph 43 of this ASAE where the practitioner believes that there may be a significant variation in the activity's

³⁹ For further guidance on what constitutes a meaningful level of assurance, refer to ASAE 3000, paragraphs A4-A7.

performance. In these circumstances the assurance practitioner may consider whether a reasonable assurance engagement will be more effective. This change in approach would be communicated through the engagement strategy.

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

- A36. In a performance engagement, understanding internal controls relevant to the activity assists the practitioner in identifying the types of variations and factors that affect the risks of material variation. Professional judgment is needed to determine which controls are relevant in the engagement circumstances.
- A67. Internal controls are processes designed, implemented and maintained by those charged with governance, management and other personnel to mitigate the risks which may prevent achievement of objectives relating to an entity and its operations, compliance or reporting.
- A68. The assurance practitioner's understanding of the entity's system of internal control provides a preliminary understanding of how the entity identifies business risks and how it responds to them. It may also influence the practitioner's identification and assessment of the risks of significant variation. This assists the practitioner in designing and performing further procedures, including any plans to test the operating effectiveness of controls.
- A69. In the context of a performance engagement, a relevant internal control is one designed to address (mitigate) the risks of significant variation in the activity's performance. A relevant internal control may include components of the control environment, the entity's risk assessment process, the entity's process for monitoring its system of internal control, the information system and communication, and specific control activities designed to mitigate specific risks. Professional judgment is needed to determine which controls are relevant in the engagement circumstances.
- A70. Internal controls relevant to an activity's performance may include controls that pervasively impact an entity's operations (indirect entity-level controls). Whether such controls are relevant, will likely depend on the engagement objective(s). For example, when the objective of an engagement is the effectiveness of the administration of grants for a public sector entity, internal control over human resources management may not be relevant to the performance engagement. If the assurance practitioner's intention is to rely on the entity's grants payment system, internal control related to the entity's information system and information technology may be relevant to such an engagement.
- A71. In other situations, internal controls relevant to the engagement may be direct controls designed to mitigate the risk of significant variations from the identified criteria, such as authorisations and approvals, reconciliations, verifications (such as edit and validation checks or automated calculations), segregation of duties, and physical or logical controls, including those addressing safeguarding of assets. For example, a control to ensure contract variations are approved by an appropriate delegate may be relevant when conducting a performance engagement to examine whether procurements of office furniture have been consistent with a government's procurement rules and are achieving value for money.
- A72. When the objective of a performance engagement is to conclude on a specific outcome of a program or process, examination of internal control at either the entity wide level or activity level may not be relevant to that engagement. For example, an assurance engagement may be designed to reach a conclusion regarding whether the time taken to process specific items (for example, applications to receive a service) over a specified period of time exceeds what is permitted under stated policies. The practitioner might simply examine all the items processed during the specified period and conclude on whether there were significant variations from the stated policies.
- A37. When the objective of a performance engagement ~~is to assess~~ requires the design or implementation of internal controls over a process to be assessed (for example, a process for dealing with patients in a hospital emergency room), the assurance practitioner's expectations for the effective design and implementation of the internal controls is likely to be a criterion.

~~the assurance practitioner may consider, during the initial planning phase, identifying the internal controls to the extent necessary to inform the engagement scope and the risk assessment. The assurance practitioner considers the evaluation of the design or determines the implementation of the controls later in the engagement as internal controls form the activity for this performance engagement.~~

~~A73.~~

~~A38. When the objective of a performance engagement is to conclude on a specific outcome of a process, control may not be relevant to that engagement. For example, an assurance engagement may be designed to reach a conclusion regarding whether the time taken to process specific items (for example, applications to receive a service) over a specified period of time exceeds what is permitted under stated policies. The practitioner might simply examine all the items processed during the specified period and conclude on whether there were material variations with the stated policies~~

~~A74. When internal controls are judged to be relevant to a performance engagement, the assurance practitioner's understanding of controls includes identifying controls designed to mitigate the risk of significant variations identified as part of the assurance practitioner's risk assessment. The aim is to identify controls that, if ineffective, will create a higher risk of significant variation.~~

~~A75. The assurance practitioner may plan to obtain evidence by testing the operating effectiveness of identified controls, for example, where such an approach is considered to be more effective or efficient for large volumes of homogenous transactions. The assurance practitioner may also identify risks of significant variation for which it is not possible to obtain sufficient appropriate evidence through substantive procedures alone.~~

~~A76. The practitioner is not required to evaluate the design of controls and to determine whether they have been implemented unless the practitioner plans to obtain evidence by testing their operating effectiveness.~~

~~A77R. Risk procedures to obtain an understanding about control design and implementation for a reasonable assurance engagement may include:~~

- ~~• Enquiring with the responsible party's personnel;~~
- ~~• Observing the application of specific controls;~~
- ~~• Inspecting documents and reports; and~~
- ~~• Performing walk-throughs.~~

~~Enquiry alone is not sufficient for such purposes.~~

~~A78L. In a limited assurance engagement it will often not be necessary to obtain a detailed understanding of internal controls and the procedures to obtain the understanding may be less in extent, and of a different nature, than those required in a reasonable assurance engagement. For example, in a limited assurance engagement, the assurance practitioner may obtain a sufficient understanding through enquiry but may need to perform a walk-through in a reasonable assurance engagement.~~

~~A39.A79. Evaluating the design of a control involves the assurance practitioner's consideration~~considering~~ of whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material significant variations. Implementation of a control means that the control exists and that the entity is using it. There is little point in assessing the implementation of a control that is not effective, and so the design of a control is considered first. An improperly designed control may represent a significant deficiency in internal control.~~

A80. The assurance practitioner determines the implementation of an identified control by establishing that the control exists and that the entity is using it. There is little point in the practitioner assessing the implementation of a control that is not designed effectively. To determine if the controls have been implemented, the practitioner may perform walk-throughs or observe the control being performed by, for example, the responsible party's personnel. The assurance practitioner often evaluates control design and implementation at the same time.

A81. The practitioner may conclude that a control is effectively designed and implemented. It is then appropriate to design and perform further procedures to test its operating effectiveness in order to determine the nature, timing and extent of other assurance procedures. However, when a control is not designed or implemented effectively, there may be no benefit in testing it.

A82. Evaluating the design and determining the implementation of controls is not sufficient to test their operating effectiveness.

Obtaining Evidence**Designing and Performing Further Procedures** (Ref: Para 41-46 35-38)

A40-A83. Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability. The assurance practitioner ordinarily considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting an evidence-gathering procedure for which there is no alternative. The assurance practitioner uses professional judgement and exercises professional scepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the conclusions in the assurance report.⁴⁰

A41-A84. Performance engagements require the application of assurance skills and techniques and the gathering of sufficient appropriate evidence as part of an iterative, systematic assurance engagement process. For further guidance on the nature, timing and extent of evidence-gathering procedures for performance engagements, refer to ASAE 3000.⁴¹

A85L. The evidence required in a limited assurance engagement would ordinarily be limited to that obtained by enquiry, analytical procedures and necessary documentation review. In contrast to a reasonable assurance engagement, the assurance practitioner in a limited assurance engagement would not ordinarily seek to corroborate evidence obtained as long as the information obtained from applying assurance procedures appears plausible in the circumstances as judged by the practitioner. In circumstances where the practitioner is not satisfied of the plausibility of the initial evidence collected, it may be necessary to seek corroboration of evidence or to conduct more detailed procedures.

A86L. In considering the plausibility of evidence obtained, the assurance practitioner may consider, for example, whether the evidence:

- (a) is consistent with the practitioner's knowledge and understanding of the entity and activity subject to the engagement, and other evidence obtained during the course of conducting the engagement; and
- (b) reasonably demonstrates that the criteria of the engagement have been met or not met.

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

⁴⁰ See ASAE 3000, paragraphs A147-A158.

⁴¹ See ASAE 3000, paragraphs A109-A118.

A88. Under ASAE 3000⁴² it may not be appropriate for a reasonable assurance engagement that has commenced to be reduced to limited assurance, without reasonable justification. ASAE 3000 notes an inability to obtain sufficient appropriate evidence to support a reasonable assurance conclusion, is not an acceptable reason to change from a reasonable assurance engagement to a limited assurance engagement. In these circumstances the assurance practitioner may consider withdrawing from the engagement or issue a modified conclusion.

~~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.

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

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

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

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

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

Written Representations (Ref: Para 46)

~~A43.~~A92. If the performance engagement is initiated by the assurance practitioner, the assurance practitioner may not be in a position to obtain representations from the responsible party, particularly as the responsible party may not be a party to the performance engagement.

~~A44.~~A93. Representations by the responsible party cannot replace other evidence the assurance practitioner could reasonably expect to be available. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a ~~material-significant~~ effect on the evaluation ~~or measurement~~ of the activity's performance, when such evidence would ordinarily be available, constitutes a limitation on the scope of the performance engagement, even if a representation from the responsible party has been received on the activity.

~~A45.~~A94. Written representations may include that the responsible party:

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

⁴² See ASAE 3000, paragraphs 29.

- (b) has provided the assurance practitioner with all relevant information and access agreed to, as set out in paragraph [A20A21](#);
- (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—Evaluating the Impact of Identified Variations (Ref: Para [3947-48](#))

~~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 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.~~

~~For 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.~~

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

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

Subsequent Events (Ref: Para [4049](#))

~~A47-A96.~~ The extent of consideration of subsequent events that come to the attention of the assurance practitioner depends on the potential for such events to affect the activity's performance and to affect the appropriateness of the assurance practitioner's conclusions. Consideration of subsequent events in some performance engagements may not be relevant because of the nature of the activity.

~~A48-A97.~~ The assurance practitioner does not have any responsibility to perform procedures or make any enquiry after the date of the report. ~~If however~~ However, if after the date of the report, the assurance practitioner becomes aware of a matter identified, the assurance practitioner may consider re-issuing the report. In a performance engagement the new report discusses the reason for the new report under a heading "Subsequent Events".

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

~~A98. The assurance practitioner's conclusion directly addresses the question of whether or not the engagement objective has been met and, if not, is specific about the findings that resulted in exceptions to the conclusion, including the causes and consequences. The conclusion presents the assurance practitioner's overall view and goes beyond merely restating or summarising the findings. Whereas findings are identified by comparing 'what should be', in accordance with~~

the evaluation criteria identified for the engagement (the required or desired performance), with evidence on ‘what is’ (the actual performance), the assurance practitioner’s conclusion reflects the practitioner’s explanations and views based on these findings. The assurance practitioner’s conclusion clarifies and add meaning to the specific findings in the report.⁴³ (Ref: Appendix 2)

A99. In forming the conclusion, the assurance practitioner evaluates the sufficiency and appropriateness of the evidence obtained.⁴⁴ The practitioner also assesses the significance of the findings in relation to the engagement objective(s). Evaluating whether sufficient appropriate evidence has been obtained, and whether more needs to be done to achieve the objectives of this ASAE, requires professional judgement.

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

Preparing the Assurance Report (Ref: Para 43-48/52-59)

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

A102. The assurance practitioner considers which report structure will be most effective to communicate the outcome of the performance engagement. To effectively add value and maximise impact, it is important that the assurance report is comprehensive, convincing, timely, reader friendly and balanced.⁴⁵

Comprehensive

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

Convincing

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

Timely

⁴³ For further guidance on the process of developing conclusions, see INTOSAI Guidance GUID 3920, paragraphs 78-98.

⁴⁴ See ASAE 3000, paragraphs A154-A158.

⁴⁵ For further guidance, refer to INTOSAI Standard ISSAI 3000, paragraphs 116-128 and INTOSAI Guidance GUID 3920, paragraphs 106-124.

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

Reader friendly

The assurance report is likely to have a greater impact when it is reader friendly. It is therefore important that the assurance report is clear, concise, logical and focused on the engagement objective(s). The assurance practitioner considers using simple and unambiguous language to the extent permitted by the subject matter. Busy readers may not read reports from beginning to end and may instead focus on a contents page, headings and subheadings, an executive summary, conclusions, significant findings and recommendations (if any). The practitioner may consider using typographical devices (for example, the bolding of text) and other mechanisms (for example, illustrations, figures and tables) to improve clarity and which may assist in better communicating key messages. Where the report includes technical terms and concepts, it may be helpful to the reader if explanations are provided in a glossary or footnotes.

Balanced

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

A49.A103. There may be circumstances where an Auditor-General, having conducted a performance engagement, decides not to report to Parliament or to publish an assurance report. The Auditor-General usually has discretion under their mandate to choose whether and to whom they will report on performance engagements. Assurance reports which are tabled in Parliament become available to the public. In certain circumstances it may be necessary for the confidentiality of the assurance report to be maintained, in which case the report may, in accordance with relevant legislation be provided to the relevant Parliamentary Committee or other appropriate user, in confidence. The Auditor-General considers the public interest in determining whether the assurance report will be made publicly available.

Assurance Report Content (Ref: Para 55-59)

A50.A104. This ASAE does not require a standardised format for reporting on performance engagements. ~~Instead, it even though paragraph 45 identifies the basic elements of the assurance report is to include, whether in an executive summary, the main body of the report or in an appendix to the report. The format of the assurance report may differ depending on whether the assurance practitioner is an Auditor-General reporting to Parliament pursuant to their legislative mandate, or a practitioner engaged to perform a performance engagement in the private sector. For instance, under:~~

~~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.~~

~~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.~~

A51.A105. ~~Therefore, a~~ Assurance reports are tailored to the specific performance engagement circumstances and needs of intended users. ~~with the~~ The assurance practitioner ~~using~~ uses professional judgement in deciding how best to meet the reporting requirements detailed in paragraph ~~4555~~ in conveying reporting the conclusion(s), findings and recommendations (if any). The assurance practitioner includes the matters in paragraph ~~4555~~ 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.

A106. To maximise impact, the assurance practitioner may consider including an executive summary in the assurance report which may include, for example:

- (a) the scope of the engagement;
- (b) the engagement objective(s);
- (c) the evaluation criteria;
- (d) the assurance practitioner's overall conclusion(s) against the engagement objective(s);
- (e) key findings; and
- (f) recommendations (if any);

A107. The purpose of the main body of the assurance report is to substantiate the key findings of the engagement that support the assurance practitioner's conclusion(s) and recommendations (if any). The engagement findings have to be put into context, and congruence has to be established between the engagement objective(s), conclusions and findings.

~~Reporting Findings, Recommendations and Responsible Party Comments~~

A52:A108. For reasons of transparency and accountability, the assurance practitioner may expand the assurance report to include other information and explanations, in addition to the basic elements identified in paragraph 55, including:

- The terms of the engagement
- Relevant background information and historical context.
- In addition to the overall objective(s), also identify sub-objectives/questions (or lines of enquiry).
- In addition to the overall criteria, also identify sub-criteria.
- The assurance approach/methodology.
- Assurance-specific methods of data-collection and analysis applied.
- Sources of data.
- ~~• underlying facts and identified criteria applied.~~

- ~~Factors relevant to the practitioner's consideration of significance disclosure of materiality levels.~~
- ~~Findings relating to particular aspects of the performance engagement.~~
- Analysis of the causes of variations in the activity's performance.
- ~~recommendations to address variations identified.~~
- Comments received in response to the report from the responsible party/ies.

~~A53-A109. The decision to include any such information in addition to the basic elements identified in paragraph 55 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. To effectively communicate the conclusion and key findings and not detract from key messages in the assurance report, the assurance practitioner may consider including such information in appendices to the assurance report.~~

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

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

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

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

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

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

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

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

~~A114. The assurance conclusion is not a summary of findings but rather expresses a clear conclusion against the engagement objective based on the findings. The conclusion directly addresses the question of whether or not the objective of the engagement has been met and, if not, should ideally be specific about the findings that resulted in exceptions to the conclusion. The conclusion is written in a manner that is likely to enhance the degree of confidence of the intended users about the evaluation of the activity's performance against the identified criteria.⁴⁶ The user may benefit from seeing a summary of the key findings which support the conclusion in close proximity to the overall conclusion.~~

~~A115. The level of assurance obtained/provided by the assurance practitioner should be clear from the report. A performance engagement may have more than one overall engagement objective~~

⁴⁶ See INTOSAI GUID 3910, paragraphs 27-32.

and the assurance practitioner may need to express a conclusion against each objective. There may also be circumstances where a performance engagement may have several overall engagement objectives with a conclusion for each expressing a different level of assurance.⁴⁷ Each conclusion would need to be expressed either in the form appropriate for a reasonable assurance engagement (expressed in positive form) or limited assurance engagement (expressed in negative form). (Ref: Para 55(d))

Variations in the Activity's Performance

A54.A116. When the assurance practitioner was unable to obtain sufficient appropriate evidence (a scope limitation exists)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~~
- ~~(a) the practitioner was unable to conclude against certain identified criteria, or certain engagement objectives or sub-objectives — when the assurance practitioner was unable to obtain sufficient appropriate evidence regarding certain aspects of the responsible party's performance of the activity (a qualified "except for" conclusion); or (Ref: Para 55(g)(ii)a)~~
- ~~(e)(b) the assurance practitioner was unable to conclude on the activity's performance overall — when the assurance practitioner was unable to obtain sufficient appropriate evidence regarding the responsible party's performance of the activity's performance as a whole (a disclaimer of conclusion). (Ref: Para 55(g)(ii)b)~~

~~A55. The assurance practitioner's conclusions described in paragraph A54, are equivalent modified conclusions under ASAE 3000 and the equivalent terms in ASAE 3000⁴⁸ are:~~

- ~~• a qualified conclusion — circumstances described in sub-paragraph A54(a).~~
- ~~• an adverse conclusion — circumstance described in sub-paragraph A54(b).~~
- ~~• a disclaimer of conclusion — circumstance described in sub-paragraph A54(c).~~

A117. When the assurance practitioner has identified significant variations in the activity's performance, the assurance practitioner's conclusion clearly reflects that either:

- ~~(a) the responsible party did not perform the activity in accordance with the identified criteria, or certain engagement objectives or sub-objectives (a qualified "except for" conclusion); or (Ref: Para 55(h)(ii)a)~~
- ~~(b) the responsible party did not perform the activity in accordance with the identified criteria, or the engagement objective(s), as a whole (an adverse conclusion). (Ref: Para 55(h)(ii)b)~~

A118L. The conclusion for a limited assurance engagement is expressed in negative form, that is, "... based on the procedures performed and evidence obtained, nothing has come to our/my attention ...". When the assurance practitioner has identified significant variations from the identified criteria, the practitioner issues a modified conclusion in line with paragraph 55(h)

⁴⁷ The assurance practitioner considers whether it would be confusing and difficult for the users of the report to interpret different levels of assurance included in the same assurance report.

⁴⁸ See ASAE 3000, paragraphs 74-75.

(adverse or qualified conclusion) — for example, “... based on the procedures performed and evidence obtained, nothing has come to our/my attention ..., except for ...” (qualified conclusion). To help users recognise and understand a limited assurance report, there are specific reporting requirements related to the summary of work performed and the conclusion, as outlined in paragraph 55.

Basis for Conclusion(s) (Ref: Para 55(i))

A119. Depending on the legislative mandate that applies in each jurisdiction, Auditors-General may be required to either:

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

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

120L. The summary of the work performed helps the intended users understand the assurance practitioner’s conclusion. In a limited assurance engagement, the summary of the work performed may be more detailed than for a reasonable assurance engagement. This is because an appreciation of the nature, timing and extent of procedures performed is essential to understanding a conclusion expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a significant matter(s) has come to the practitioner’s attention to cause the practitioner to believe that the responsible party did not perform the activity in accordance with the identified criteria. It may be appropriate to indicate in the summary of the work performed certain procedures that were not performed, that would ordinarily be expected to be performed in a reasonable assurance engagement.⁴⁹

Recommendations (Ref: Para 56)

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

Documentation (Ref: Para ~~526~~3)

A56.A122. Documentation includes a record of the assurance practitioner’s reasoning on all significant matters that require the exercise of professional judgement, and related conclusions. The existence of difficult questions of principle or judgement, calls for the documentation to include the relevant facts that were known by the assurance practitioner at the time the conclusion was reached.

A57.A123. In applying professional judgement to assessing the extent of documentation to be prepared and retained, the assurance practitioner may considers what is necessary to provide an understanding of the work undertaken, and the basis of the principal decisions made, 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.⁵⁰

⁴⁹ See ASAE 3000, paragraphs A174-A178.

⁵⁰ See ASAE 3000, paragraphs A200-A207, for further guidance and examples of documentation.

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

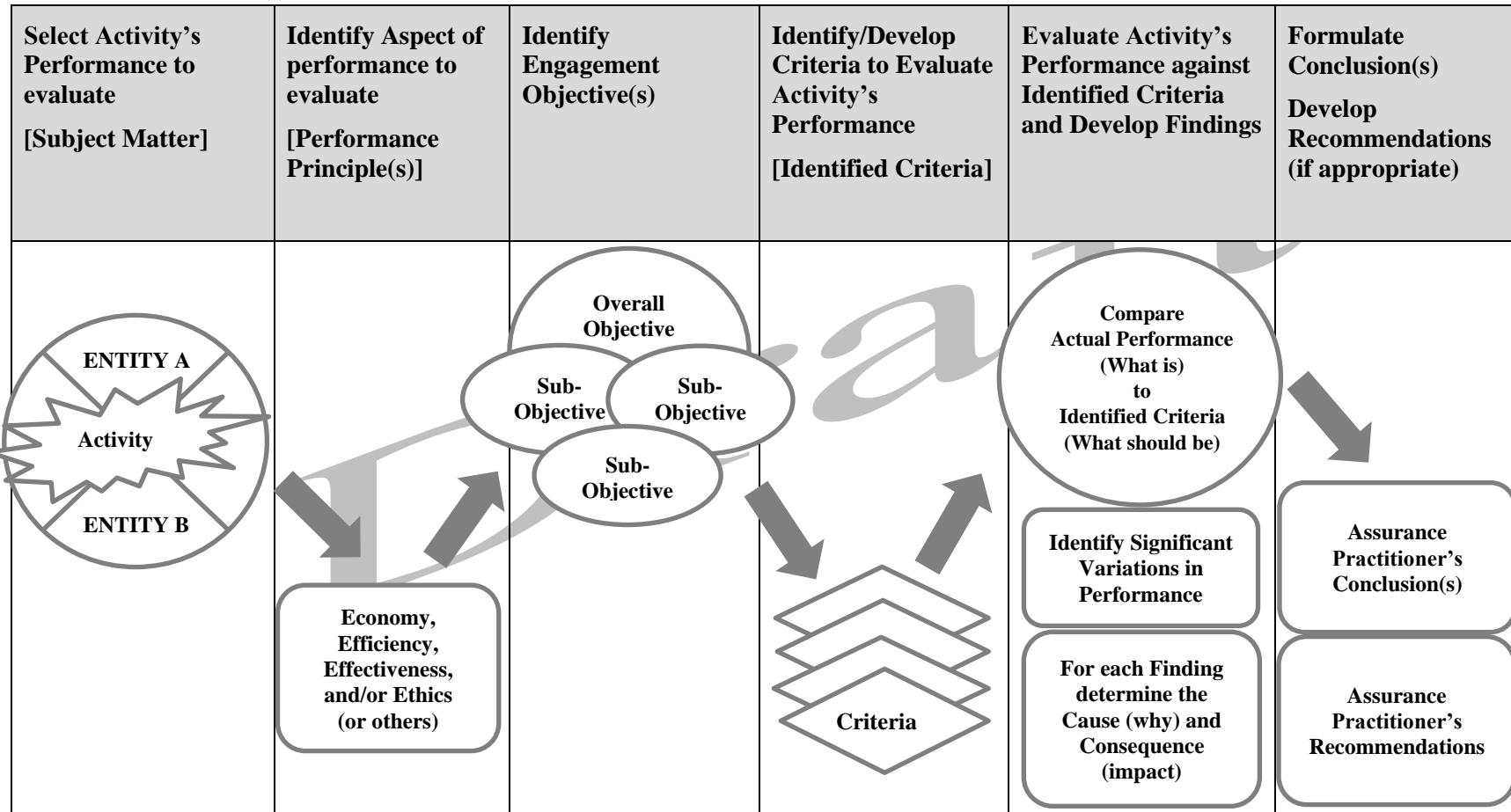
- ~~(a) subject matter; and~~
- ~~(a) assertions being tested.~~

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Appendix 1

(Ref: Para 7)

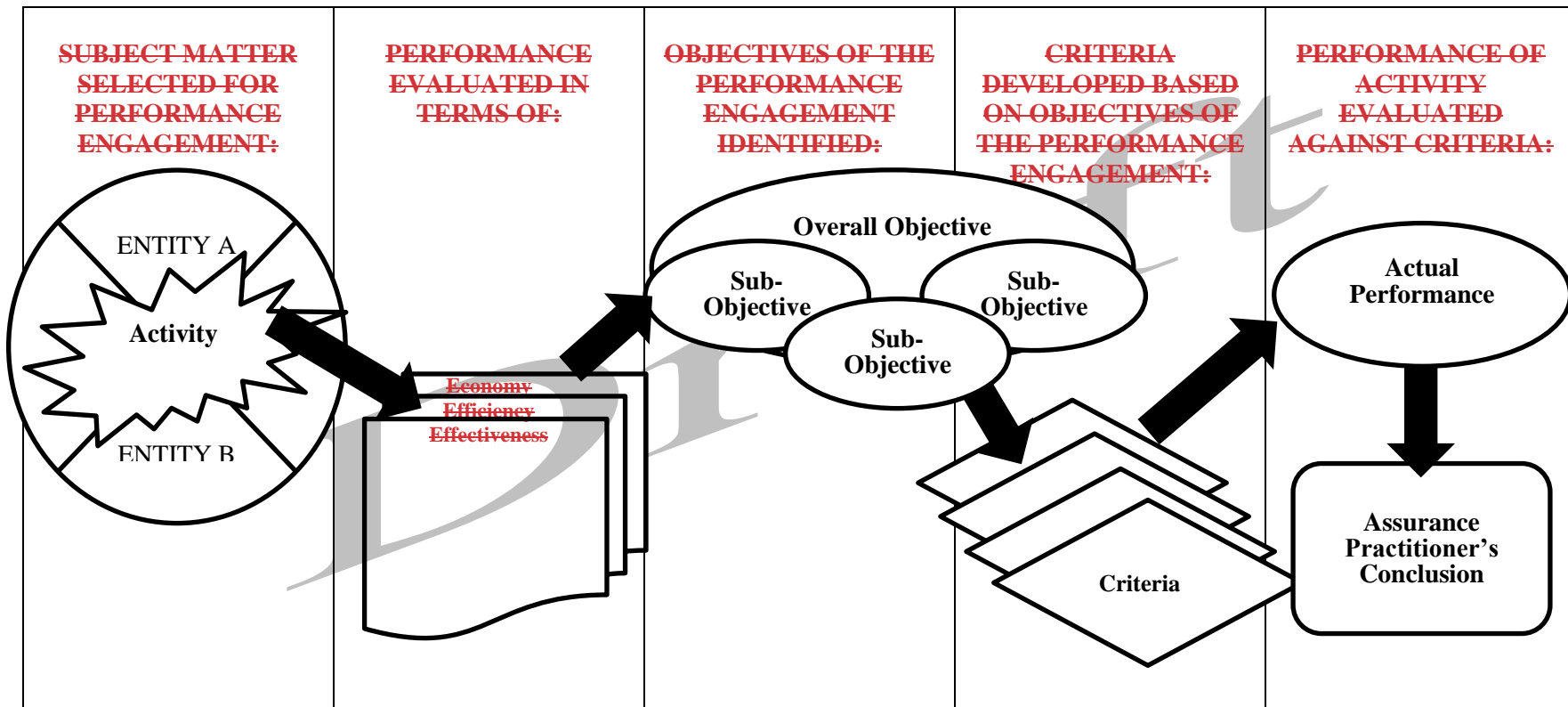
The Nature of A Performance Engagement



Appendix 1

(Ref: Para.6)

THE NATURE OF A PERFORMANCE ENGAGEMENT



Example of a Performance Engagement

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

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

Proposed Standard on Assurance Engagements ASAE 3500 *Performance Engagements*

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

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"> • Framework for management of pests. • Co-operation & collaboration between agencies and landholders co-ordinated. • Pest control activities based on identified priorities including: <ul style="list-style-type: none"> — Prevention of new pests. — Highest environmental impact. 	<p>Conclude that pests were managed effectively; or</p> <p>Conclude that pests were not managed effectively due to:</p> <ul style="list-style-type: none"> — Lack of a jurisdiction wide plan to implement framework and allocate roles & responsibilities. — Little monitoring or enforcement of landholders responsibilities regarding pest control; or <p>Conclude 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"> — Lack of adequate and reliable data collection and sharing on pest numbers, types, geographic spread and pest control

Proposed Standard on Assurance Engagements ASAE 3500 *Performance Engagements*

Engagement Objective/Audit Question/ Scope	Performance Assertion	Subject Matter/ Activity	Agency/ Entity	Identified Criteria	Assurance Conclusion
				<ul style="list-style-type: none"> — Greatest chance of controlling pest. 	<ul style="list-style-type: none"> measures undertaken to inform resource allocation and priorities. — Lack of adequate data on threats of new pests from other jurisdictions.

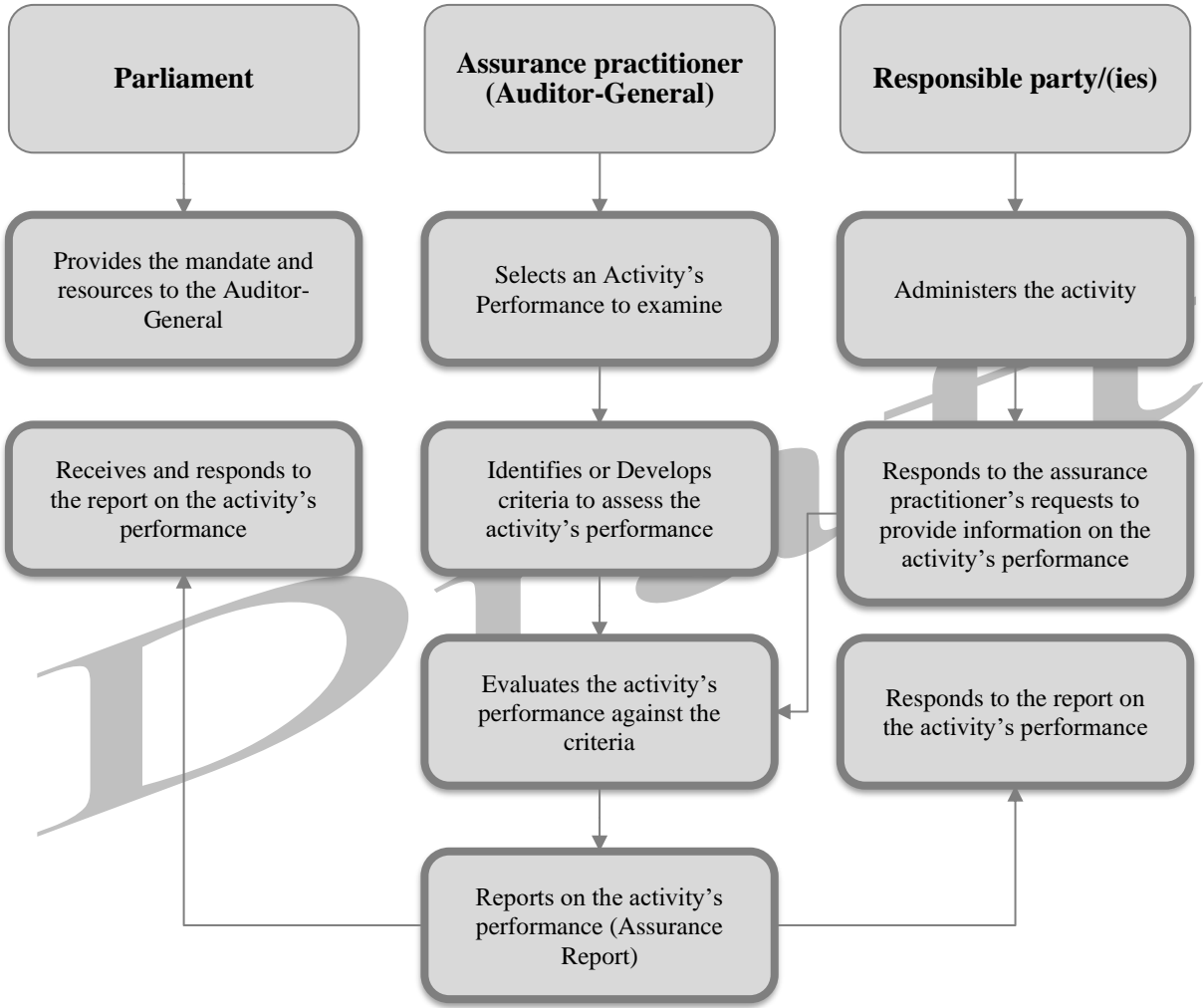
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Appendix 3

(Ref: Para 9)

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

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



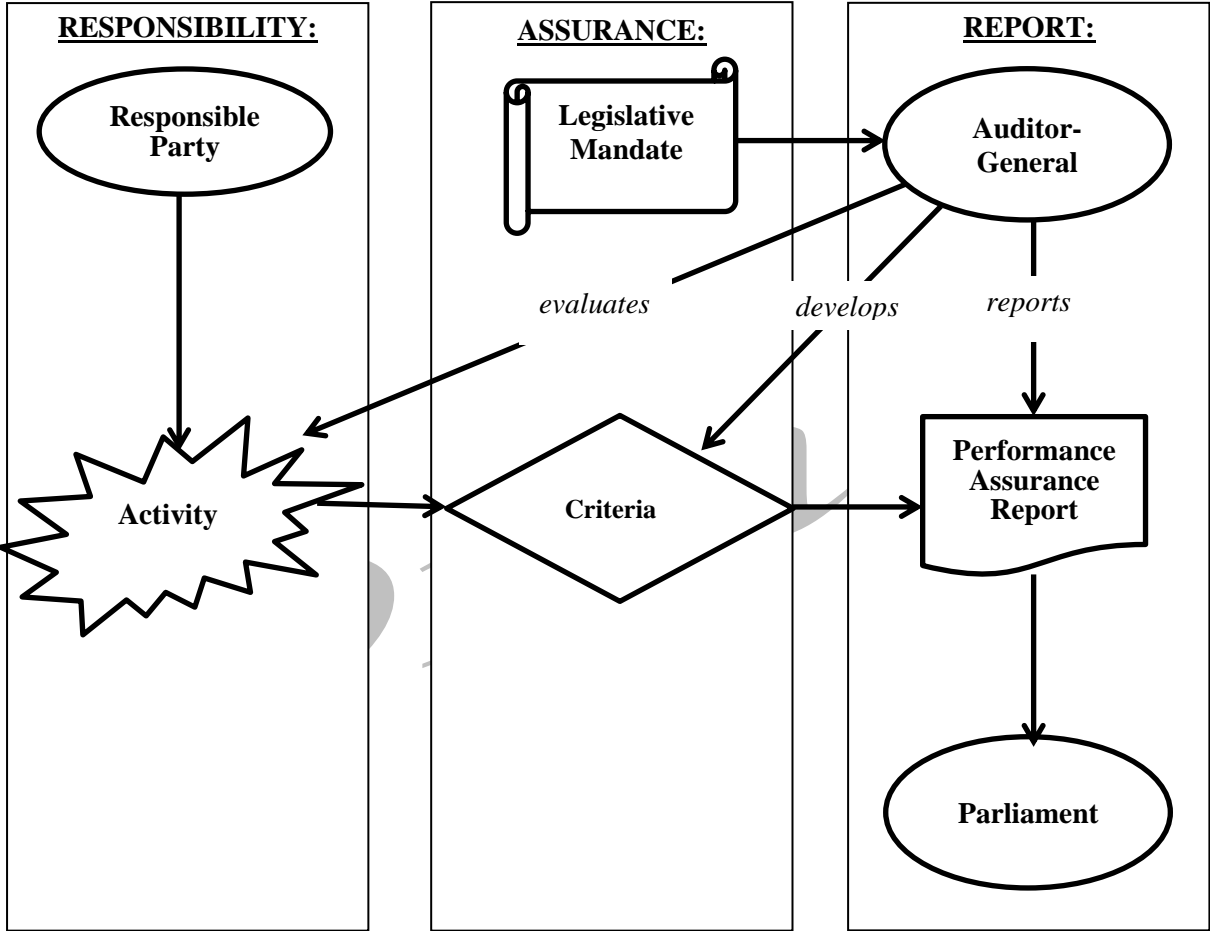
Under their legislative mandate, the Auditor-General selects an activity, conducted by the responsible party(ies), to be the subject matter of a performance engagement. The Auditor-General identifies the performance principle (for example, economy, efficiency and/or effectiveness) to be applied and develops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

Appendix 3

(Ref. Para 8)

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

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



Under their legislative mandate, the Auditor General selects an activity, conducted by the responsible party or parties, to be the subject matter of a performance engagement. The Auditor General identifies economy, efficiency and/or effectiveness to be applied and develops suitable criteria against which to assess performance. The 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 ~~416.57~~)

Standards Applicable to Example Engagements on an Activity’s Performance

Subject Matter	Type	AUASB Applicable Standards			
		ASAE 3000 Assurance Engagements (Not Historical Financial Information)	ASAE 3100 Compliance Engagements	ASAE 3150 Assurance Engagements on Controls	ASAE 3500 Performance Engagements
Performance of an activity in achieving economy, efficiency, and/or effectiveness, and/or other relevant performance principle , where there is no attestation (direct engagement)	Direct	✓ ⁵¹			✓
Performance of an activity to comply with legislative and regulatory requirements	Direct or Attest	✓	✓		
Design and operating effectiveness of controls over economy, efficiency, and/or effectiveness, and/or other relevant performance principle .	Direct or Attest	✓		✓	

⁵¹ 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.



AUASB Agenda Paper

Title:	ISA 240 – Fraud	Date:	9 May 2024
Office of the AUASB Staff:	Rene Herman	Agenda Item:	7

Objective of this Agenda Paper

The objective of this Agenda Item is for AUASB members to provide input into the draft AUASB submission to the IAASB on ED ISA 240 *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements; and Proposed Conforming and Consequential Amendments to Other ISAs* (ED-ISA 240).

Questions for the Board

Question No.	Question for the Board
Question 1	What are the views of AUASB members on the draft submission to the IAASB as presented at Agenda Item 7.1, including the key themes summarised in paragraph 6 of this Agenda Paper?
Question 2	Are AUASB members satisfied that the Office of AUASB staff and AUASB Chair finalise the submission to the IAASB, considering AUASB feedback without the need to revert to the AUASB?

Background on Topic

1. The IAASB issued ED-ISA 240 in February 2023 for a 120-day consultation period closing on 5 June 2024. In February 2024 the AUASB issued a Consultation Paper exposing the IAASB’s proposed standard (essentially a ‘wrap around’ of the ED-ISA 240).
2. In April 2024, the AUASB released an educative webcast which outlined the key proposals contained within ED-ISA 240.
3. The AUASB held two roundtables to obtain stakeholder feedback/input on ED-ISA 240. These roundtables were targeted and attended by a wide range of stakeholder groups including large, mid, and small sized practitioners, academics, and professional bodies. Roundtables were held in Melbourne and online virtual with a total of approximately 35 stakeholders.
4. Submissions to the AUASB Consultation Paper close on 21 May accordingly, at the time of posting this agenda paper, no formal submissions have yet been received. The draft submission at Agenda Item 7.1 has been informed by feedback from the roundtables. A verbal update on additional items raised through comment letters will be provided to the Board at the meeting on 23 May.
5. The main changes proposed by ED-ISA 240 are:
 - a) Greater focus on professional scepticism throughout the audit;
 - b) Clarity and emphasis on the auditor’s responsibilities;
 - c) Applying a fraud lens on risk identification and assessment;
 - d) Robust work effort requirements if a fraud or suspected fraud is identified; and
 - e) Increased transparency in the auditor’s report on fraud related key audit matters (KAMs), including a statement where there are no fraud-related KAMs.

Matters for Discussion and Office of the AUASB Recommendations

6. The main themes in the draft submission are:
- (a) Transparency by directors: The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance (TCWG). Accordingly, greater transparency by the auditor proposed in ED-ISA 240 should be complemented in due course by jurisdictional requirements for statements by TCWG as to how the risks of material fraud have been identified and addressed. Refer response to Questions 1 and 5 of Agenda Item 7.1.
 - (b) Scalability of the requirements: There is concern with the practicality and scalability of the work effort requirements to address circumstances when instances of fraud or suspected fraud are identified in the audit. Refer response to Question 4 of Agenda Item 7.1.
 - (c) Transparency in the Auditor's Report: Professionals expressed mixed views about increasing transparency in relation to fraud in the auditor's report. Concern was expressed with the requirements to disclose if there are no key audit matters related to fraud to communicate. Professionals were considered that this requirement could drive some auditors to include boilerplate fraud related KAMs so as to avoid stating that there are no KAMs related to fraud to communicate. Refer response to Question 5 of Agenda Item 7.1.
 - (d) Stand-back provision: Due to the nature of fraud, it is especially important that an overall evaluation is performed that considers the outcome of the various risk assessment and further audit procedures, as well as any other observations in the aggregate. Accordingly, the draft submission recommends including stand-back requirement in the final ISA 240. The auditor should evaluate all relevant audit evidence obtained, whether corroborative or contradictory, and whether sufficient appropriate audit evidence has been obtained in responding to the assessed risks of material misstatement due to fraud. Refer response to Question 7 of Agenda Item 7.1.

Collaboration with NZAuASB and other standard setters

7. The Office of the AUASB will monitor the New Zealand submission expected to be distributed to the NZAuASB later in May and will inform AUASB members of any differences in the New Zealand position.

Next steps/Way Forward

8. The submission to the IAASB Exposure Draft is due 5 June 2024. Consistent with the AUASB's [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#), the ultimate content of the AUASB's submission will be determined after balancing all evidence from submissions and consultations. Having regard to AUASB input, the Office of the AUASB and AUASB Chair will finalise and submit the response to the IAASB.
9. The Office of the AUASB will share with the AUASB formal submissions received. At the AUASB meeting on 23 May, consideration will be given to whether a revised draft is required to be circulated to the AUASB and whether further discussions are required.
10. The Office of the AUASB will continue to monitor the IAASB's progress through the process of their analysing comments on ED and how these comments are considered by the IAASB. Board members will be updated at Board meetings during 2024 and any key issues discussed.

Materials Presented

Agenda Item	Description
7.1	Draft AUASB submission to the IAASB

RESPONSE TEMPLATE FOR THE EXPOSURE DRAFT OF PROPOSED ISA 240 (REVISED)

Guide for Respondents

Comments are requested by **June 5, 2024**.

This template is for providing comments on the Exposure Draft (ED) of *Proposed International Standard on Auditing 240 (Revised), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements and Proposed Conforming and Consequential Amendments to Other ISAs (ED-240)*, in response to the questions set out in the Explanatory Memorandum (EM) to the ED. It also allows for respondent details, demographics and other comments to be provided. Use of the template will facilitate the IAASB's automated collation of the responses.

You may respond to all questions or only selected questions.

To assist our consideration of your comments, please:

- For each question, start by indicating your overall response using the drop-down menu under each question. Then below that include any detailed comments, as indicated.
- When providing comments:
 - Respond directly to the questions.
 - Provide the rationale for your answers. If you disagree with the proposals in the ED, please provide specific reasons for your disagreement and specific suggestions for changes that may be needed to the requirements, application material or appendices. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view.
 - Identify the specific aspects of the ED that your response relates to, for example, by reference to sections, headings or specific paragraphs in the ED.
 - Avoid inserting tables or text boxes in the template when providing your responses to the questions because this will complicate the automated collation of the responses.
- Submit your comments, using the response template only, without a covering letter or any summary of your key issues, instead identify any key issues, as far as possible, in your responses to the questions.

The response template provides the opportunity to provide details about your organization and, should you choose to do so, any other matters not raised in specific questions that you wish to place on the public record. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

Use the "**Submit Comment**" button on the ED [web page](#) to upload the completed template.

PART A: Respondent Details and Demographic information

Your organization's name (or your name if you are making a submission in your personal capacity)	Australian Auditing and Assurance Standards Board (AUASB)
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Doug Niven – AUASB Chair
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Rene Herman
E-mail address(es) of contact(s)	rherman@auasb.gov.au
Geographical profile that best represents your situation (i.e., from which geographical perspective are you providing feedback on the ED). Select the most appropriate option.	Asia Pacific
	If "Other," please clarify.
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on the ED). Select the most appropriate option.	Jurisdictional/ National standard setter
	If "Other," please specify.
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	

Should you choose to do so, you may provide overall views or additional background to your submission. **Please note that this is optional.** The IAASB's preference is that you incorporate all your views in your comments to the questions (also, question no. 10 in Part B allows for raising any other matters in relation to the ED).

Information, if any, not already included in responding to the questions in Part B:

PART B: Responses to Questions for Respondents in the EM for the ED

For each question, please start with your overall response by selecting one of the items in the drop-down list under the question. Provide your detailed comments, if any, below as indicated.

Responsibilities of the Auditor

1. Does ED-240 clearly set out the auditor's responsibilities relating to fraud in an audit of financial statements, including those relating to non-material fraud and third-party fraud?

(See EM, Section 1-C, paragraphs 13–18 and Section 1-J, paragraphs 91–92)

(See ED, paragraphs 1–11 and 14)

Overall response: [Agree, with comments below](#)

Detailed comments (if any):

The AUASB is supportive of the auditor's responsibilities relating to fraud as set out in ED-240. The auditor has the primary responsibility for audit quality. While fraud can be more difficult to detect, overall ED-240 appropriately outlines the auditor's responsibilities in obtaining reasonable assurance that the financial report is not materially misstated, whether due to error or fraud.

We also agree that the primary responsibility for the prevention and detection of fraud rests with management and those charged with governance (TCWG).

Australian practitioners have highlighted continuing concerns with expectation gaps and that some users of financial reports and others may have a perception that the auditor has sole or primary responsibility for preventing and detecting material fraud. While recognising the challenges in addressing expectation gaps, there should be appropriate communication and education in national jurisdictions on the responsibilities of management and TCWG. Greater transparency by the auditor should be complemented in due course by jurisdictional requirements for statements by TCWG as to how the risks of material fraud have been identified and addressed.

We also note that securities and audit regulators in Australia and elsewhere have worked to educate and remind management and TCWG on their roles and responsibilities in relation to financial reporting quality, as well as how they can support audit quality. Guidance issued by IOSCO for audit committees and others includes [IOSCO Report on Good Practices for Audit Committees in Supporting Audit Quality](#) (January 2019) and [IOSCO Consultation on Goodwill](#) (June 2023).

Professional Skepticism

2. Does ED-240 reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements?

(See EM, Section 1-D, paragraphs 19–28)

(See ED, paragraphs 12–13 and 19–21)

Overall response: Agree (with no further comments)

Detailed comments (if any):

Risk Identification and Assessment

3. Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019)¹ and other ISAs to support a more robust risk identification and assessment as it relates to fraud in an audit of financial statements?

(See EM, Section 1-F, paragraphs 36–46)

(See ED, paragraphs 26–42)

Overall response: Agree, with comments below

Detailed comments (if any):

The AUASB is strongly supportive of the strengthening of requirements and application material as it relates to risk assessment procedures and related activities. The AUASB is particularly supportive of the following new/enhanced requirements:

- Paragraph 33 of ED-240 focusing on aspects of the auditor’s understanding of the entity and its environment.
- Paragraphs 34-38 of ED-240 focusing on aspects of the auditors understanding of the components of the entity’s system of internal control.
- Paragraph 39 of ED-240 for the auditor to determine whether there are deficiencies in internal control identified relevant to the prevention or detection of fraud.
- Paragraph 16 of ED-240 making the engagement team discussions more robust.
- Paragraph 27 and associated application material of ED-240 clarifying when it may or may not be appropriate to rebut the presumption of fraud in revenue recognition.

¹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Fraud or Suspected Fraud

4. Does ED-240 establish robust work effort requirements and application material to address circumstances when instances of fraud or suspected fraud are identified in the audit?

(See EM, Section 1-G, paragraphs 47–57 and Section 1-E, paragraph 35)

(See ED, paragraphs 55–59 and 66–69)

Overall response: [Disagree, with comments below](#)

Detailed comments (if any):

The AUASB is concerned with the practicality and scalability of the requirements in paragraph 55 applying to all instances of identified fraud or suspected fraud.

The AUASB agrees with the basis of the IAASB's conclusions that an understanding of the fraud or suspected fraud is necessary to inform the engagement partner's determinations as required by paragraph 66; i.e. how do you know the trivial or inconsequential fraud isn't indicative of a wider issue. However, the AUASB considers the absence of materiality reference in paragraph 55, unduly expands the expectations of the auditor and that the requirements as described in paragraph 55 are too onerous from both a practical perspective as well as from a documentation perspective.

While supportive of the IAASB's basis for paragraph 55 and in recognising scalability concerns, the AUASB suggests the following:

1. Splitting paragraph 55 with only 55(a) and 55(b) required for all instances of identified fraud or suspected fraud.
2. Paragraph 55 (c) and 55 (d) are not required where instances of fraud or suspected fraud are clearly trivial.
3. Adding application material supporting paragraph 55 to explain that the tolerance for fraud in the public sector may be such that it would be rare for an instance of fraud or suspected fraud to be considered trivial.
4. Introducing a stand-back requirement at the conclusion of the audit into ED-240 (also refer response to Question 7) to further address the possibility of an accumulation of matters that alone might be considered clearly trivial. This would complement the new overarching requirement in paragraph 21 of ED-240 for the auditor to remain alert throughout the audit engagement for information that is indicative of fraud or suspected fraud.

Due to the nature of fraud, it is important that an overall evaluation is performed covering the outcome of risk assessment and other audit procedures, and any other relevant information, taken together.

A stand-back requirement at the conclusion of the audit could include an evaluation of all relevant audit evidence obtained, whether corroborative or contradictory, and whether sufficient appropriate audit evidence has been obtained in responding to the assessed risks of material misstatement due to fraud.

Transparency on Fraud-Related Responsibilities and Procedures in the Auditor's Report

5. Does ED-240 appropriately enhance transparency about matters related to fraud in the auditor's report?

(See EM, Section 1-H, paragraphs 58–78)

(See ED, paragraphs 61–64)

Overall response: [Agree, with comments below](#)

Detailed comments (if any):

On balance, in the public interest and to satisfy the needs expressed by users of financial statements for more transparency about matters related to fraud in the auditor's report, the AUASB supports the proposed transparency through KAM style reporting in the auditor's report for Listed Entities.

Australian stakeholders have mixed views about increasing transparency in relation to fraud in the auditor's report. Professionals have commented that under the current suite of standards, the auditor could already include fraud related KAMs in the auditor's report and that a specific KAM requirement places undue focus on fraud. They were concerned with potentially widening the expectation gap and possible litigation, particularly in scenarios where a material fraud is later discovered but there was no KAM in the auditor's report.

In due course, national jurisdictions should consider complementing greater transparency by the auditor with more transparency from directors around the responsibilities of management and TCWG in relation to the prevention and detection of fraud, including how the risks of material fraud have been identified and addressed.

In particular, professionals expressed concern with the requirements of paragraph 64 of ED-ISA 240 to disclose if there are no key audit matters related to fraud to communicate. They considered that this requirement could drive some auditors to include boilerplate fraud related KAMs to avoid stating that there are no KAMs related to fraud to communicate.

6. In your view, should transparency in the auditor's report about matters related to fraud introduced in ED-240 be applicable to audits of financial statements of entities other than listed entities, such as PIEs?

(See EM, Section 1-H, paragraphs 76–77)

(See ED, paragraphs 61–64)

Overall response: [Neither agree/disagree, but see comments below](#)

Detailed comments (if any):

The AUASB's response to the IAASB's PIE Track 2 ED was not supportive of extending the extant differential requirements for communicating KAM to apply to PIEs.

Considering a Separate Stand-back Requirement in ED-240

7. Do you agree with the IAASB's decision not to include a separate stand-back requirement in ED-240 (i.e., to evaluate all relevant audit evidence obtained, whether corroborative or contradictory, and whether sufficient appropriate audit evidence has been obtained in responding to the assessed risks of material misstatement due to fraud)?

(See EM, Section 1-J, paragraphs 107–109)

Overall response: [Disagree, with comments below](#)

Detailed comments (if any):

The new overarching requirement in paragraph 21 of ED-240 for the auditor to remain alert throughout the audit engagement for information that is indicative of fraud or suspected fraud, should be complemented by a stand back requirement at the conclusion of the audit.

Due to the nature of fraud, it is important that an overall evaluation is performed covering the outcome of risk assessment and other audit procedures, and any other any other relevant information, taken together.

A stand-back requirement conclusion of the audit could include an evaluation of all relevant audit evidence obtained, whether corroborative or contradictory, and whether sufficient appropriate audit evidence has been obtained in responding to the assessed risks of material misstatement due to fraud.

Scalability

8. Do you believe that the IAASB has appropriately integrated scalability considerations in ED-240 (i.e., scalable to entities of different sizes and complexities, given that matters related to fraud in an audit of financial statements are relevant to audits of all entities, regardless of size or complexity)?

(See EM, Section 1-J, paragraph 113)

Overall response: [Disagree, with comments below](#)

Detailed comments (if any):

See Response to Question 4.

Linkages to Other ISAs

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200,² ISA 220 (Revised),³ ISA 315 (Revised 2019), ISA 330,⁴ ISA 500,⁵ ISA 520,⁶ ISA 540 (Revised)⁷ and ISA 701⁸) to promote the application of the ISAs in an integrated manner?

(See EM, Section 1-J, paragraphs 81–84)

Overall response: Agree (with no further comments)

Detailed comments (if any):

Other Matters

10. Are there any other matters you would like to raise in relation to ED-240? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

Overall response: No response

Detailed comments (if any):

Translations

11. Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-240.

Overall response: No response

Detailed comments (if any):

Effective Date

² ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

³ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

⁴ ISA 330, *The Auditor's Responses to Assessed Risks*

⁵ ISA 500, *Audit Evidence*

⁶ ISA 520, *Analytical Procedures*

⁷ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

⁸ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

12. Given the need for national due process and translation, as applicable, and the need to coordinate effective dates with the Going Concern project and the Listed Entity and PIE – Track 2 project, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged. Would this provide a sufficient period to support effective implementation of the ISA?

(See EM, Section 1-J, paragraphs 115–116)

(See ED, paragraph 16)

Overall response: No response

Detailed comments (if any):

Draft



AUASB Agenda Paper

Title:	ASA 2023-1 Revised Explanatory Statement	Date:	23 May 2024
Office of the AUASB Staff:	See Wen Ewe	Agenda Item:	8

Objective of this Agenda Paper

- The objective of this Agenda Paper is to:
 - provide an update to AUASB members on the previously approved Revised Explanatory Statement to ASA 600; and
 - seek approval from AUASB members on a Revised Explanatory Statement for ASA 2023-1.

Question for AUASB members	
Question	Do AUASB members approved the Revised Explanatory Statement to ASA 2023-1 <i>Amendments to Australian Auditing Standards</i> (see Agenda Item 8.1).

Background and Previous Discussions on Topic

Revised Explanatory Statement of ASA 600 (for noting only)

- The AUASB approved a revised explanatory statement of ASA 600 *Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors)* in September 2022 (see [Agenda Item 11 of the September 2022 AUASB Agenda Papers](#)) to include a paragraph on the exemption from sunseting. Following the September 2022 AUASB meeting, the Office of AUASB was advised by the Treasury and Senate Standing Committee for the Scrutiny of Delegated Legislation (the Committee) that a revised version of the ASA 600 explanatory statement did not need to be lodged with Federal Register of Legislation (see [Agenda Item 11 of the September 2022 AUASB Minutes](#)).
- Recently it has been brought to the Office of AUASB’s attention that the Treasury would prefer the AUASB to lodge the revised explanatory statement. The Office of AUASB will lodge the revised explanatory statement approved by the AUASB in September 2022 with Federal Register of Legislation.

Revised Explanatory Statement of ASA 2023-1 (for decision)

- The AUASB approved the explanatory statement for ASA 2023-1 in March 2023 (see [Agenda Item 9 of the March 2023 AUASB Agenda Papers](#)) when the amending standard was approved. The main purpose of ASA 2023-1 was to update ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* so that it would refer to the December 2022 version of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*. ASA 2023-1 also includes changes arising from narrow-scope amendments made by the Australian Accounting Standards Board (AASB) to AASB 101 *Presentation of Financial Statements*.
- Recently the Office of the AUASB via the Treasury received an email request from the Committee regarding ASA 2023-1. The Committee assesses legislative instruments against scrutiny principles outlined in Senate standing order 23 (see [Chapter 5 - Standing and Select Committees – Parliament of Australia](#) and [Senate Standing Order 23\(4\) Matters of interest to the Senate](#)).

6. The Committee raised two concerns in relation to ASA 2023-1 as follows:
 - (a) *Retrospective commencement* – ASA 2023-1 is operative for financial reporting periods commencing on or after 1 January 2023 but the standard was approved on 15 March 2023, after the commencement date. The explanatory statement did not confirm whether the commencement date means the standard is retrospective in effect and whether this would disadvantage any person other than the Commonwealth.
 - (b) *Incorporation of APES 110 in ASA 102 by reference* – Neither ASA 2023-1 nor its explanatory statement confirms that APES 110 is incorporated by reference, provides the manner of incorporation, or indicates where and how the document may be freely obtained.

Matters for Consideration and Next Steps

7. The Office of the AUASB is proposing to amend the ASA 2023-1 explanatory statement to address both of the concerns raised by the Committee. See **Agenda Item 8.1** for the marked-up version of the explanatory statement of ASA 2023-1. The Office of the AUASB consulted the Committee and the Committee is satisfied that the proposed wording addressed their concerns.
8. Upon AUASB's approval of the revised explanatory statement, the Office of the AUASB will resubmit the explanatory statement for the Federal Register of Legislation.

ASA 2023-1
(March 2023)

Explanatory Statement

ASA 2023-1 Amendments to Australian Auditing Standards

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Explanatory Statement

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

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Reasons for Issuing Auditing Standard ASA 2023-1

The AUASB issues Auditing Standard ASA 2023-1 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

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

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

Purpose of Auditing Standard ASA 2023-1 ~~Amendments to Australian Auditing Standards~~ Amendments to Australian Auditing Standards

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

ASA 102	<i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> (Issued December 2019 and amended to March 2021)
ASA 210	<i>Agreeing the Terms of Audit Engagements</i> (Issued October 2009 and amended to March 2020)
ASA 510	<i>Initial Audit Engagements – Opening Balances</i> (Issued October 2009 and amended to March 2020)
ASA 570	<i>Going Concern</i> (Issued December 2015 and amended to November 2021)
ASA 580	<i>Written Representations</i> (Issued October 2009 and amended to December 2018)
ASA 600	<i>Special Considerations – Audits of a Group Financial Report</i> (Issued October 2009 and amended to March 2020)
ASA 700	<i>Forming an Opinion and Reporting on a Financial Report</i> (Issued December 2015 and amended to September 2021)
ASA 705	<i>Modifications to the Opinion in the Independent Auditor's Report</i> (Issued December 2015 and amended to June 2020)
ASA 706	<i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i> (Issued December 2015 and amended to June 2020)
ASA 710	<i>Comparative Information–Corresponding Figures and Comparative Financial Reports</i> (Issued October 2009 and amended to November 2021)
ASA 720	<i>The Auditor's Responsibilities Relating to Other Information</i> (Issued December 2015 and amended to March 2020)

Main Features

This Auditing Standard makes amendments to Australian Auditing Standards. The amendments represent:

- (a) changes arising from narrow-scope amendments made by the Australian Accounting Standards Board (AASB) to AASB 101 *Presentation of Financial Statements*;

- (b) changes to ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* arising from amendments made by the Accounting Professional & Ethical Standards Board (APESB) to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* ([APES 110](#)); and
- (c) editorial corrections to revise minor inaccuracies, including misspellings and numbering or grammatical matters.

Operative Date

ASA 2023-1 [Amendments to Australian Auditing Standards](#)~~Amendments to Australian Auditing Standards~~ is operative for financial reporting periods commencing on or after 1 January 2023.

Process of making Australian Auditing Standards

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

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

Consultation Process prior to issuing the Auditing Standard

It is the view of the AUASB that ASA 2023-1 [does](#) not require public exposure as the amendments are sufficiently narrow in scope as well as editorial corrections to revise minor inaccuracies, including misspellings and numbering or grammatical mistakes.

Regulatory Impact Statement

A Regulatory Impact Statement ([RIARIS](#)) has been prepared in connection with the preparation of ASA 2023-1 [Amendments to Australian Auditing Standards](#)~~Amendments to Australian Auditing Standards~~. The [RIA-RIS](#) has been cleared by the Office of Impact Analysis (OIA).

Exemption from Sunsetting

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

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

Commencement of ASA 2023-1 Amendments to Australian Auditing Standards

The instrument was made on 15 March 2023 but is operative from years commencing 1 January 2023. The instrument makes minor updates to terminology used in a number of auditing standards and requires auditors to adhere to an updated APES 110 made by the APESB in December 2022. These provisions do not change the existing requirements of the standards or impose any additional requirements to auditors for the period between 1 January and the creation of the instrument.

APES 110 sets out fundamental principles of ethics for members of the three largest accounting bodies. The APESB consults publicly on all proposed changes to the Code. Further, the three largest accounting bodies required their members to apply the updated Code from its commencement in December 2022 (i.e. before the commencement of ASA 2023-1).

It is most important that there are no matters that could affect the objectivity of the auditor, when forming an opinion on the financial report at the conclusion of the audit. In practice, the prior year audit of an entity with a financial year commencing 1 January 2023 would not be concluded until March 2023. The audit work for the year commencing 1 January 2023 would not have commenced and would largely take place after 31 December 2023. While some financial periods may be shorter than 12 months, it is unlikely that entities would have reporting periods that both commenced and ended between 1 January 2023 and 15 March 2023 or that the audit would be concluded during that period.

Incorporation by reference

Prior to the amendments made by this standard, paragraph 5(d) of Auditing Standard ASA 102 incorporated the version of APES 110 made in November 2018.

Under s14(1)(b) of the *Legislation Act 2003* an instrument may incorporate documents such as APES 110 as in force from time to time. The main purpose of ASA 2023-1 was to replace the reference to previous APES 110 in ASA 102 with a reference to the most recent version of APES 110.

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

STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

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

Legislative Instrument: **Auditing Standard ASA 2023-1 [Amendments to Australian Auditing Standards](#)**
~~Amendments to Australian Auditing Standards~~

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

Overview of the Legislative Instrument

Background

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

Purpose of Auditing Standard [ASAASA 2023-1](#)

The purpose of ASA 2023-1 is to make amendments to the requirements and application and other explanatory material and appendices of the following Auditing Standards:

ASA 102	<i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> (Issued December 2019 and amended to March 2021)
ASA 210	<i>Agreeing the Terms of Audit Engagements</i> (Issued October 2009 and amended to March 2020)
ASA 510	<i>Initial Audit Engagements – Opening Balances</i> (Issued October 2009 and amended to March 2020)
ASA 570	<i>Going Concern</i> (Issued December 2015 and amended to November 2021)
ASA 580	<i>Written Representations</i> (Issued October 2009 and amended to December 2018)
ASA 600	<i>Special Considerations – Audits of a Group Financial Report</i> (Issued October 2009 and amended to March 2020)
ASA 700	<i>Forming an Opinion and Reporting on a Financial Report</i> (Issued December 2015 and amended to September 2021)
ASA 705	<i>Modifications to the Opinion in the Independent Auditor's Report</i> (Issued December 2015 and amended to June 2020)
ASA 706	<i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i> (Issued December 2015 and amended to June 2020)
ASA 710	<i>Comparative Information-Corresponding Figures and Comparative Financial Reports</i> (Issued October 2009 and amended to November 2021)
ASA 720	<i>The Auditor's Responsibilities Relating to Other Information</i> (Issued December 2015 and amended to March 2020)

Main Features

ASA 2023-1 makes amendments to Australian Auditing Standards. The amendments represent:

- (a) changes arising from narrow-scope amendments made by the Australian Accounting Standards Board (AASB) to AASB 101 *Presentation of Financial Statements*;
- (b) changes to ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* arising from amendments made by the Accounting Professional & Ethical Standards Board (APESB) to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*; and
- (c) editorial corrections to revise minor inaccuracies, including misspellings and numbering or grammatical matters.

Human Rights Implications

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

Conclusion

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