

October 2017

Basis for Conclusions ***ASAE 3500 Performance Engagements***

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Basis for Conclusions

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

Contact Details

Auditing and Assurance Standards Board
Podium Level 14, 530 Collins Street
Melbourne Victoria 3000
AUSTRALIA

Phone: (03) 8080 7400
E-mail: enquiries@auasb.gov.au

Postal Address:
PO Box 204, Collins Street West
Melbourne Victoria 8007
AUSTRALIA

COPYRIGHT

© 2017 Auditing and Assurance Standards Board (AUASB). The text, graphics and layout of this document are protected by Australian copyright law and the comparable law of other countries. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source as being the AUASB.

Requests and enquiries concerning reproduction and rights for commercial purposes should be addressed to the Technical Director, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Melbourne, Victoria 8007 or sent to enquiries@auasb.gov.au. Otherwise, no part of this document may be reproduced, stored or transmitted in any form or by any means without the prior written permission of the AUASB except as permitted by law.

ISSN 2201-3628

Basis for Conclusions ASAE 3500 *Performance Engagements*

This Basis for Conclusions for ASAE 3500 *Performance Engagements* has been developed by the Auditing and Assurance Standards Board (AUASB) to provide a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASAE 3500.

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.

CONTENTS

	<i>Page</i>
Background	5
Scope.....	5
Major Issues raised by Respondents on Exposure.....	6
Conclusion.....	7

BASIS FOR CONCLUSIONS

ASAE 3500 Performance Engagements

This Basis for Conclusions is issued by the Auditing and Assurance Standards Board (AUASB). It provides a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis of Conclusions relates to, but does not form part of, ASAE 3500 *Performance Engagements*, and is not a substitute for reading the Standard.

Background

1. The AUASB has issued a revised Standard on Assurance Engagements, ASAE 3500 Performance Engagements, to replace ASAE 3500, issued by the AUASB in October 2008. ASAE 3500 sets out mandatory requirements and related application and other explanatory material (“guidance”) for assurance practitioners to apply (in conjunction with the requirements in ASAE 3000) when accepting, planning, performing and reporting on performance engagements. ASAE 3500 is operative for assurance engagements commencing on or after 1 January 2018, with early adoption permitted.
2. This project was undertaken after board discussion and conduct of a survey in 2012 of practitioners to ascertain current utilisation of the existing standard and whether stakeholders considered that a revision to the standard was appropriate. This, coupled with discussion and feedback at the annual AUASB Consultative meeting in 2011 and the revision to ASAE 3000 in 2014, resulted in the AUASB resolving to revise ASAE 3500 during the board meeting held in February 2015. This feedback indicated that the primary use of ASAE 3500 was for direct engagements providing a reasonable assurance conclusion over activities delivered or controlled in the public sector.
3. The AUASB’s project to develop a revised standard on performance engagements has been conducted in consultation with a Project Advisory Group (PAG) comprising an academic and assurance practitioners from the State, Territory and Commonwealth Auditor-Generals Offices. An exposure draft ED 01/17 of the proposed standard was issued by the AUASB on 22 May 2017 in Australia for a 60 day exposure period. The comment period closed on 21 July 2017 and 3 submissions were received. The AUASB considered all submissions received, and in response, made a number of amendments to proposed ASAE 3500.
4. Submissions on the exposure draft were received from:
 - Australasian Council of Auditors-General (ACAG)
 - CPA Australia (CPA)
 - Ernst & Young (EY)
5. The Office of Best Practice Regulation (OBPR) provided clearance for the proposed standard in May 2017, as the OBPR considered that the regulatory impacts of the proposed revised standard are likely to be minor and consequently no regulatory impact statement was required.
6. ASAE 3500 was approved by the AUASB on 12 September 2017.

Scope

7. ASAE 3500 applies to direct engagements undertaken by an assurance practitioner to provide a reasonable assurance report on performance of an activity evaluated against the identified criteria.

Major Issues raised by Respondents on Exposure

The following summarises the major issues raised by respondents to Exposure Draft ED 01/17 Performance Engagements (ED 01/17) issued on 22 May 2017 and how the AUASB has addressed those issues.

Issue 1: – Assurance Report Content

8. One respondent noted that the minimum requirements to be included in a performance engagement report as prescribed in ED 01/17 contain some elements not currently applied in practice. As such, the inclusion of all of these elements would require significant changes to the content and format of existing performance audit reports.
9. In response, the AUASB considered that this matter had been discussed and considered by the PAG throughout the project. It was noted by the PAG that some base elements required in the assurance report (e.g. application of ASQC1 and responsible party and assurance practitioner responsibility statements) are in practice not currently included in the assurance report on Performance Engagements. The AUASB therefore agreed to remove the requirement to reference the application of ASQC1 in the assurance report on the basis that there is a mandatory requirement to comply with ASQC1 is included in paragraph 10 of ED 01/17, meaning the need to disclose this in an assurance report on a Performance Engagement (specifically those undertaken by Auditors-General) is not essential.

The AUASB considered it appropriate to retain the responsible party and assurance practitioners' description of their responsibilities, but to allow discretion as to where such description be included in the performance engagement report. The AUASB considered that this would allow the Auditors-General, the primary group who undertake performance engagements, more flexibility in their reporting to Parliament, the public and other users of the assurance report and provide consistency with revised ASAE 3000, by ensuring these base elements are reported elsewhere in the assurance report.

Issue 2 – Objectives of a Performance Engagement

10. One respondent considered that ED 01/17 did not acknowledge the common Australian practice of establishing an overall engagement objective at the commencement of a performance engagement. This conceptually is distinct from the general engagement objective referred to in paragraph 15, and may differ from the program or entity level objectives referred to in paragraph 16(g). The formulation of a specific audit objective is an important early stage of engagement planning, particularly for a direct engagement, as it informs the identification, selection or development of criteria relevant to the evaluation of the performance of an activity with respect to economy, efficiency and effectiveness.

The existing standard acknowledges the important role of the engagement objective in planning and reporting on the engagement, and the respondent recommended the retention of the intent and wording of these requirements.

While the proposed standard does not prevent the setting of an engagement objective, the respondent preferred that the standard recognised the setting of objectives and concluding on objectives as essential steps in conducting a performance engagement.

11. In response, the AUASB considered that the current standard does refer to the 'objective' in the planning and reporting requirement paragraphs. The AUASB agreed to include reference to the overall objective in the planning and assurance report content requirements of revised ASAE 3500 and define the term "Objective of a performance engagement" in the definition section of the standard.

Issue 3 – Understanding Internal Controls

12. Two respondents noted the potential for inconsistent application of the requirements on “understanding internal controls” in ED 01/17. This is due in part to ED 01/17 introducing a new requirement to understand relevant internal control by evaluating the design and implementation of controls. This may be construed as implying a level of testing of the relevant controls, in addition to obtaining an understanding, however it is not clear whether this is the intention and, if so, what the nature, timing and extent of procedures should be.
13. In response, the AUASB considered that the assurance practitioner would need to apply their professional judgement as to when internal controls are considered relevant to the evaluation of an activity’s performance. The circumstances of each performance engagement will be different and as such this would need to be considered on an engagement by engagement basis.

The AUASB agreed the evaluation of the design of internal controls should be explicitly linked to the objective of the performance engagement, and if relevant, performing procedures on the implementation of these controls. This has been clarified in paragraph 33 of revised ASAE 3500.

Some additional application material has also been included in paragraphs A36-A39 of revised ASAE 3500, to clarify areas the assurance practitioner may need to consider, and the types of procedures that may be undertaken on internal controls if relevant.

14. All other issues raised by respondents were considered by the AUASB and where agreed have been reflected in the revised ASAE 3500.

Other Amendments

15. Due to the timing of the approval and completion of the NOCLAR changes to ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* in May 2017, which included conforming amendments to ASAE 3000, this requirement had not been included in ED 01/17 ASAE 3500.

The AUASB agreed for completeness to include a requirement in paragraph 34 of the revised ASAE 3500 as follows:

“The assurance practitioner shall implement non-compliance with laws and regulations procedures as required by ASAE 3000.”

This requirement also includes a footnote to paragraph 45 of ASAE 3000.

Conclusion

The AUASB considered that the amendments made to the standard since exposure, in response to ED submissions and as a result of the AUASB’s deliberations, have not changed the fundamental approach and principles on which the standard is based. The AUASB concluded that it was not necessary to re-expose the standard, as the intention of the requirements remained unchanged. The AUASB voted to approve and issue ASAE 3500 on 12 September 2017.

* *