



# AUASB Project Plan

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<b>Project Title:</b>	Narrow Scope Revision of ASAE 3500 <i>Performance Engagements</i>
<b>Date Prepared:</b>	1 July 2023
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<b>ATG Member:</b>	Johanna Foyster
<b>AUASB Member:</b>	Julie Crisp

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## Overview of Project

### Background

1. AUASB Standard on Assurance Engagements [ASAE 3500 Performance Engagements](#) (ASAE 3500) sets out the requirements and related application and other explanatory material for assurance practitioners (accountants and non-accountants) to apply when accepting, planning, performing and reporting on performance engagements.
2. 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.
3. ASAE 3500 deals with **direct engagements** to provide a **reasonable assurance** report on an activity's/activities' performance (expressed in terms of economy, efficiency and/or effectiveness) evaluated against identified criteria. The Standard may also be applied, adapted and supplemented as necessary in the engagement circumstances, to limited assurance engagements. However, the Standard does not provide any further guidance for undertaking limited assurance engagements.
4. ASAE 3500 is an Australian Standard with no IAASB equivalent; however, it is issued by the AUASB under the AUASB's Framework for Assurance Engagements, which is consistent with the IAASB's equivalent Framework.
5. ASAE 3500 is to be applied in conjunction with ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. ASAE 3500 adapts the requirements in ASAE 3000, which is written for attestation engagements (covering reasonable and limited assurance 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 addition to the requirements of ASAE 3500.
6. ASAE 3500 was revised and reissued by the AUASB in October 2017 (operative for assurance engagements commencing on or after 1 January 2018).<sup>1</sup>
7. At its June 2023 meeting, the AUASB approved a new project that will make narrow scope amendments to ASAE 3500, to address the key findings from the AUASB's [Post Implementation Review](#) (PIR) of the Standard that was undertaken March to June 2023.

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<sup>1</sup> ASAE 3500 (October 2017) 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.

## What information gathering has been completed to date?

8. AUASB technical staff has conducted a PIR of ASAE 3500 to evaluate the effectiveness and efficiency of the Standard's implementation and application in practice. The AUASB has publicly released a [Feedback Statement](#) which summarises the key findings from the PIR. Evidence obtained from conducting the PIR has been used as starting point to identify potential issues that may exist in applying the Standard in practice.
9. AUASB technical staff has also performed a search of information that are publicly available that could provide further insight into the existence and nature of issues identified. This included a review of relevant:
  - (a) Auditor-General Auditing Standards and Audit Office policies to determine the extent to which ASAE 3500 has been adopted in each jurisdiction in Australia; and
  - (b) a review of relevant academic and other papers published on the subject matter since the Standard become operative.

## Objective and Scope of this Project

### Project Objective

10. To undertake a narrow scope revision of ASAE 3500 (revised and issued in October 2017), to address the key findings from the AUASB's PIR of the Standard, undertaken March to June 2023.

### Project Scope

11. The revision is considered narrow in scope as it will be 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.<sup>2</sup>
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.

## What are the major issues that need to be addressed?

13. The narrow scope revision of ASAE 3500 will be focussed on the following areas of the Standard:
  - (a) Update ASAE 3500 to also include specific requirements and application material for limited assurance performance engagements. Material will be set out in a columnar format to differentiate between limited and reasonable assurance engagements, in line with the approach followed in ASAE 3000 and other ASAEs.
  - (b) Update the Objectives of the Standard to:
    - (i) apply to both reasonable and limited assurance engagements; and
    - (ii) be flexible and sufficiently broad to apply to a range of performance engagements.

The existing ASAE 3500 expresses 'performance' in terms of economy, efficiency and effectiveness only (the '3 Es'). Additional performance engagement assertions/principles beyond the 3Es may also include equity (whether government

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<sup>2</sup> 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](#).

entities provide services to all citizens in an equitable manner, without discriminating against a particular group) and probity (such as honesty, accountability and transparency). This may have flow on effects to the rest of the Standard. For example, there may be a need to revisit and, if necessary, update the definitions of 'performance engagement' and 'Objective of a performance engagement', as well as references to the 3Es throughout the Standard.

- (c) Revisit the reporting requirements of the Standard (content and format of the assurance report) taking into consideration the objective of a performance engagement and the needs of the users of assurance reports on performance.
- Feedback indicated divergent practices in applying the Standard's reporting requirements in the different jurisdictions in Australia.
  - It may not be appropriate or necessary for the assurance practitioner to express an overall conclusion on performance for the report to meet the needs of users. Current practice is for Auditors-General to report conclusions together with other information (such as findings and recommendations) that highlights both positive and negative aspects of performance. 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 independent reporting to the Parliament, the Executive and the general public. It is considered assurance reports on performance should also provide new information, analysis or insights and, where appropriate, recommendations for improvement.
  - Consider whether further application guidance and illustrative examples of assurance reports will be helpful and promote consistency in reporting between jurisdictions.
- (d) Provide more specificity than ASAE 3000 (which primarily applies to attestation engagements) for performance engagements (which are direct engagements), including further application guidance, explanatory material and examples to demonstrate key principles, in the following areas:
- (i) The difference in work effort (procedures/evidence) 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.
  - (iii) Identifying and assessing engagement risk in the context of a performance engagement.
  - (iv) The nature and extent of the assurance practitioner's understanding of relevant internal controls.<sup>3</sup>
  - (v) Implementing non-compliance with laws and regulations procedures as required by ASAE 3000 (paragraphs 45).<sup>4</sup>
  - (vi) Examples of wording to use in drafting various types of assurance conclusions and modified conclusions, specifically for limited assurance performance engagements

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<sup>3</sup> See ASAE 3500, paragraph 33.

<sup>4</sup> See ASAE 3500, paragraph 34.

and circumstances where there are material variations from performance against only some of the criteria.

- (e) Update Appendices in response to narrow scope changes made in the main body of the Standard and to include further illustrative examples.
- (f) Consider whether the Standard can be improved further if written in 'plain English' format (similar to INTOSAI standards). This may make it easier for performance assurance practitioners that do not have an accounting or financial auditing background to understand and apply the Standard in practice.

### Issues Out of Scope of this project

- 14. As noted above, this is not a full scope revision of ASAE 3500 and will be targeted at addressing the specific issues identified by stakeholders that participated in the PIR of ASAE 3500.

### What additional information gathering needs to be completed and why?

- 15. Further consultation with stakeholders (through a PAG — see paragraphs 18-20) to:
  - (a) confirm the AUASB's understanding of the issues raised by respondents who participated in the PIR of ASAE 3500, and how each Audit Office addressed such issues in their jurisdiction (policies, procedures and guidance).
  - (b) identify how the issues raised can be best addressed within the existing Australian assurance framework.
- 16. In drafting the narrow scope revisions to ASAE 3500, consider whether concepts, requirements and application material included in the following materials are relevant and can be used as starting point in developing the revisions to ASAE 3500:
  - ASAE 3000 and other relevant AUASB Standards (ASAEs and relevant ASAs such as ASA 315<sup>5</sup>).
  - Relevant IAASB publications on Sustainability and other Extended External Reporting (EER) Assurance.<sup>6</sup>
  - Relevant National Standard Setters (NSS) standards and guidance materials on the topic (specifically Canadian Standard on Assurance Engagements CSAE 3001 *Direct Engagements* and related Guideline AuG-50 *Conducting a Performance Audit in the Public Sector in accordance with CSAE 3001*).
  - INTOSAI Performance Audit Standards and related Guidance (specifically ISSAI 300 *Performance Audit Principles* and ISSAI 3000 *Performance Audit Standard*).

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<sup>5</sup> ASA 315 *Identifying and Assessing the Risks of Material Misstatement*.

<sup>6</sup> For example:

- Proposed ISSA 5000 *General Requirements for Sustainability Assurance Engagements*; and
- *Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting Assurance Engagements*.

## Relevant stakeholders and how to engage

17. Key stakeholders include:
- (a) Audit Offices of Commonwealth, State and Territory Auditors-General that undertake performance engagements in conjunction with financial report assurance or as part of their mandates.
  - (b) The Australasian Council of Auditors General (ACAG) and relevant sub-committees of ACAG namely ACAG's Auditing Standards Committee (ASC) and Heads of Performance Audit (HoPA).
  - (c) Private sector assurance practitioners undertaking performance engagements for or on behalf of Auditors-General.
  - (d) Other private sector assurance practitioners that may be engaged to conduct performance engagements.
  - (e) Professional accounting bodies representing assurance practitioners.

### *Project Advisory Group*

18. The project will require consultation with experts in conducting performance engagements. The intention is to set up a Project Advisory Group (PAG) consisting of 9 members representing each Auditor-General's Office in Australia. The PAG will be chaired by AUASB Deputy Chair and Northern Territory Auditor-General, Julie Crisp, and will meet every 4-6 weeks, commencing late July 2024.
19. PAG members will act in an advisory capacity to AUASB technical staff, providing industry and specific technical expertise, as well as the practitioner's and their organisation's perspective on the issues relating to the project.
20. The PAG will work with ACAG and other public sector auditing representatives and users to:
- (a) confirm the AUASB's understanding of the issues raised by respondents who participated in the PIR of ASAE 3500; and
  - (b) identify how the issues raised can be best addressed within the existing Australian assurance framework.

## Collaboration with NZAuASB (or NZ Audit Office)

21. Not applicable as ASAE 3500 is a domestic standard.

## Risks/Issues

22. The main risks/issues to the project meeting its objective are:
- (a) The revised Standard may not reflect current best practice in performance engagements.
  - (b) ASAE 3500 is designed to reflect only requirements and application material in addition to that provided in ASAE 3000. The challenge is to ensure that the Standard still makes sense to the user and that the flow of the document is maintained.

- (c) ASAE 3000 primarily applies to attestation engagements whereas ASAE 3500 applies to direct engagements. Consequently, this will require the user of ASAE 3500 to interpret, adapt and supplement the requirements of ASAE 3000 for direct engagements.
  - (d) Assurance practitioners using ASAE 3500 to conduct performance engagements may not have an accounting or financial auditing background and, as such, may not fully understand key auditing and assurance concepts and methodologies, and also lack awareness of other relevant auditing and/or assurance standards.
23. To manage these risks, the AUASB will:
- (a) establish a PAG to act in an advisory capacity to AUASB technical staff in developing the narrow scope revisions (see paragraph 18-20);
  - (b) use international standards as starting point for making the narrow scope revisions; and
  - (c) in addition to targeted consultation with key stakeholders, also expose the proposed amendments to the Standard publicly for comment.

## Project Governance

### Why is this in the public interest?

24. One of the AUASB's strategic objectives is to develop and maintain Australian specific Standards and/or Guidance for topics not specifically addressed by IAASB Standards, where required.<sup>7</sup>
25. The objective of the PIR of ASAE 3500 was to obtain stakeholder feedback about the implementation and application of the Standard (revised and reissued by the AUASB in 2017) to understand specific implementation issues and to evaluate the overall effectiveness and efficiency of the new/revised Standard in meeting its intended objectives, including considering whether the Standard continues to remain appropriate. The PIR of ASAE 3500 identified a number of issues with application of the revised Standard in practice.
26. AUASB Technical Staff consider it is in the public interest to address these issues to promote consistent application of AUASB Standards in practice and to enhance the quality of performance assurance engagements and their resulting reports.

### Action Plan

27. The actions underlying the approach to developing the narrow scope amendments to ASAE 3500 are outlined below. In undertaking these actions, the AUASB will consult with the PAG described in paragraphs 18-20.
- a) Plan the project and obtain approval of Project Plan.
  - b) Form a PAG to advise the AUASB on the development of revisions to the Standard.
  - c) Analyse feedback from respondents that participated in the 2023 PIR of ASAE 3500 to identify issues to be addressed in making the narrow scope revisions to the Standard.
  - d) Undertake further research and reach out to Audit Offices to understand the specific issues and the nature of current performance engagements.
  - e) Prepare an Issues Paper to be discussed with the PAG at its first meeting.

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<sup>7</sup> [AUASB Corporate Plan](#).

- f) Draft the narrow scope revisions to ASAE 3500. Consider whether the material identified in paragraph 16 above appropriately address the issues and, if not, develop further material, in consultation with the PAG, for inclusion in the revised Standard.
- g) Ensure the revised Standard adheres to the IAASB's *Drafting Principles and Guidelines to address Complexity, Understandability, Scalability and Proportionality* (Draft issued in April 2022) (CUSP Drafting Principles and Guidelines), to the extent relevant.
- h) Obtain and address feedback on various drafts from the PAG and the AUASB.
- i) Obtain approval of an Exposure Draft (ED) and issue for public comment with an accompanying Explanatory Memorandum (EM) for at least 60 days.
- j) Analyse ED comments and finalise the revised Standard.
- k) Obtain AUASB approval and issue final Standard with Basis for Conclusions.

## Preliminary Project Timeline and Priorities

Date	Description
July 2023	<p>Project Plan approved by AUASB Chair.</p> <p>Establish a PAG to advise the AUASB on the development of the narrow scope amendments to the Standard.</p> <p>Analyse PIR feedback and obtain further stakeholder feedback to clarify issues and obtain an understanding of the nature of current performance engagements. Request Audit Offices to share relevant policies, procedures and guidance.</p> <p>Review relevant international materials.</p> <p>Develop an Issues Paper for the PAG to consider at its initial meeting.</p> <p><a href="#">PAG Meeting #1 (last week July)</a> — PAG to agree on issues and scope of revision.</p>
Aug 2023	Initial drafting of narrow scope amendments to ASAE 3500.
Sept 2023	<p><a href="#">AUASB Meeting (12/9)</a> – project update.</p> <p><a href="#">PAG Meeting #2 (mid Sept)</a> — consider first draft of proposed amendments to ASAE 3500 (obtain feedback/further input).</p>
Oct 2023	<p>Prepare draft of ED and EM.</p> <p><a href="#">PAG Meeting #3 (late Oct)</a> — consider draft of ED to go to Dec AUASB meeting (obtain feedback/further input).</p>
Dec 2023	<a href="#">AUASB Meeting (5-6/12)</a> — draft ED and draft EM presented for Board consideration and approval to issue <u>or</u> endorsement to seek out-of-session approval.
Dec 2023	<p><a href="#">PAG Meeting #4</a> — discuss AUASB feedback and finalise ED and EM.</p> <p>Issue ED and EM (mid-Dec) — obtain <b>AUASB approval out-of-session</b> (if endorsed at Dec 2023 meeting).</p>
Dec 2023 to Feb 2024	60-day exposure period (comments due mid-Feb 2024).

Date	Description
Feb 2024	<p>Analyse ED comments and redraft Standard to address comments.</p> <p>Prepare Draft Basis for Conclusions.</p> <p><a href="#">PAG Meeting #5 (Late Feb/Early March)</a> — consider Disposition of ED comments. Agree on final Standard and Basis for conclusions.</p> <p>Prepare a Regulatory Impact Analysis/Regulatory Impact Statement and submit to Office of Impact Analysis (OIA) for clearance.</p>
Mid-March 2024	<p><a href="#">AUASB Meeting</a> — Present final revised Standard, Disposition of ED comments and Basis for Conclusions for Board approval to issue the revised Standard.</p> <p>Submit Standard for final Quality Assurance. Issue Revised ASAE 3500</p>