



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **8(c)**
Meeting Date: 15 September 2015
Subject: Revision of ASAE 3500 *Performance Engagements*
Date Prepared: 4 September 2015

Action Required

For Information Purposes Only

Agenda Item Objectives

To consider a draft revised ASAE 3500 *Performance Engagements* and provide direction on approach.

Background

1. ASAE 3500 was issued in 2008 and a post-implementation survey was conducted in 2012. The results of that survey identified a number of matters to be addressed in any future revisions to ASAE 3500.
2. The AUASB approved a project plan to revise ASAE 3500 at the AUASB meeting 24 February 2015 and an updated timetable at the 9 June 2015 meeting. Following approval of the project, the AUASB Technical Group met with the Australasian Council of Auditors-General (ACAG) Heads of Performance Audit at their annual meeting in late March, in order to bring the project to the attention of the auditors-general and to obtain initial feedback on the scope of the revised standard and issues to be addressed in the redrafting.
3. A Project Advisory Group was formed in April, with representatives from each of the audit offices which conduct performance engagements and an academic. PAG discussions were held in mid-May, to discuss the proposed approach to addressing issues identified and to recommend the scope of the revised standard; mid-June, to discuss an initial draft standard; late July and late August to discuss further drafts.
4. The agreed scope of the revised ASAE 3500 is performance engagements:
 - (a) Subject matter: an activity, which may cut across multiple entities;
 - (b) Criteria: determined by applying the selected performance principles (economy, efficiency, effectiveness etc) and the identified objectives of the activity;
 - (c) direct engagements only, which necessarily excludes assurance over service performance information reported;
 - (d) reasonable assurance only, but may be adapted for limited assurance engagements;

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- (e) allowing for engagements initiated by an auditor-general or an engaging party;
- (f) flexible scope and reporting to accommodate different mandated reporting requirements;
- (g) allowing for broad performance principles, not limited to economy, efficiency and effectiveness, to allow flexibility to address other aspects of performance;
- (h) anchors to ASAE 3000 to the extent that the requirements of ASAE 3000 are relevant to direct engagements; and
- (i) wording of the standard to reflect terminology used by performance auditors and minimise wording which is unique to AUASB standards which may not be well understood by performance auditors, including the terms used for modifications to the assurance conclusion for which clearer terms can be used.

Matters to Consider

Part A – General

1. At the 28 July AUASB meeting, the AUASB agreed to restrict the standard to direct engagements only, which has been addressed in the latest draft ASAE 3500.
2. The PAG met on 24 August and discussed terminology used and the approach to performance engagements which have been addressed largely in the current draft ASAE 3500. Where there were a range of views within the PAG or the PAG suggestions may be inconsistent with the approach in the AUASB Standards, these matters have been identified below for consideration by the AUASB.

Consistent approach to ASAE 3000 and other AUASB Standards

3. The PAG suggested that a number of matters, which are included in ASAE 3000, not be required in ASAE 3500. The AUASB is asked to consider whether these matters are key requirements from the AUASB Standards which need to be reflected in ASAE 3500 to provide a consistent approach or if they are unique to attestation engagements and so are not needed in ASAE 3500 either because they are not applicable to direct engagements or not applicable to the circumstances in performance engagements. These matters are:
 - (a) Terms of Engagement – written terms of engagement required for engagements initiated by the engaging party, should this also be required to be agreed by the assurance practitioner and the responsible party where the engagement is initiated by the assurance practitioner, as is the case for the auditors-general?
 - (b) Assurance report content – where the engagement was initiated by the auditor-general, elements which were clearly understood need not be restated, including that it is not necessary, in the case of an auditor-general, to state in the assurance report:
 - (i) That the assurance practitioner is independent.
 - (ii) The performance engagement principles applied.
 - (iii) The period covered by the performance engagement.
 - (iv) Identification of the criteria, which may be too detailed for some reports.
 - (v) The responsible party’s responsibility for the activity.
 - (vi) The assurance practitioner’s responsibility for expressing a conclusion on the activity’s performance.
 - (vii) That the engagement was conducted in accordance with ASAE 3500.

- (viii) The limitations of a performance engagement in projecting to future performance.
 - (ix) If sufficient appropriate evidence could not be obtained or there are material shortcomings in the activity's performance, a conclusion that the activity did not perform in all respects, did not perform in certain respects or there was not sufficient appropriate evidence to conclude.
- (c) Shortcomings and scope limitation – as most performance engagements identify areas for improvement so this requirement may result in every report being “qualified”. Some views were that these types of qualifications would be too negative and focus should be more on improvement opportunities rather than on lack of performance.
 - (d) Other communication responsibilities – There was concern regarding the requirement to “endeavour to obtain written representations” and some PAG members suggested that this was too onerous as representations may not be able to be obtained. Requirements regarding communication of findings to the responsible party are usually legislated for the auditors-general and the number of days which they are to be provided to respond to the findings before the report is published (usually 21 or 28 days) is also legislated. Reporting of fraud and other misconduct is usually also set out in legislation for the auditors-general, so some members of the PAG queried the need for paragraphs requiring communication with the responsible party. Nevertheless, one purpose of the standard is to achieve consistency in approach between different audit offices and also to address private sector engagements. Whilst the assurance practitioner may be unsuccessful in obtaining the written representation, it would be reasonable to request them and provides an opportunity for the responsible party to provide further information.

Manner of defining performance engagements

4. Currently the draft ASAE 3500 provides the first objective of a performance engagement: “to obtain reasonable assurance about an activity’s performance in achieving intended outputs or outcomes against identified criteria, during the period” and defines a performance engagement as: “An assurance engagement to conclude on the performance, in the context of identified performance principles, of an activity, within a single entity or across multiple entities, in achieving intended outputs or outcomes, commonly referred to as a performance audit.” One suggestion from the PAG is to simplify this objective to: “to obtain reasonable assurance about an activity’s performance in achieving intended outputs or outcomes against identified criteria, during the period, and that “outputs and outcomes” are terms not needed to be used in the standard.
5. The AUASB is asked to consider whether:
 - (a) Inputs and outcomes of the activity should be linked to the objective of the performance engagement. Identifying which outputs or outcomes the evaluation of the activity’s performance relates to is one of the key basis on which the criteria are determined. Criteria are measures of performance but meeting those criteria will be indicative of the level of performance achieved rather than conclusive. Performance can only be understood in the context of what the activity is seeking to achieve – an output or outcome. The assurance practitioner would need to use their professional judgement in evaluating the findings with respect to the extent to which the activity met each criteria and consider the impact on their conclusion.
 - (b) The time period to which the performance engagement relates should be included in the engagement objective and likewise arguably will need to be included in the assurance report. The time period is an important element of the scope of the engagement and aids the users understanding of the context in which to read and understand the assurance practitioner’s report. It also is important in planning and conducting the engagement to have defined the period over which evidence is required to support the conclusion. If evidence is obtained relating to another time period, it may well still be relevant in providing context for the period to be covered and as evidence of a trend for example, but would not be direct evidence of the activity’s performance. It may be an appropriate alternative to also allow for reports to be at a point in time.

Part B – NZAuASB

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

AUASB Technical Group Recommendations

The AUASB Technical Group requests that the AUASB provide comments on the draft revised ASAE 3500 and specifically feedback on the matters raised in Part A of this paper.

Material Presented

Agenda Item 8(c)	AUASB Board Meeting Summary Paper
Agenda Item 8(c).1	Draft revised ASAE 3500 <i>Performance Engagements</i> (Marked Up Version)

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Consider draft revised ASAE 3500.	Provide comments on the draft standard.	AUASB	15 Sept 2015	Pending
