

EXPOSURE DRAFT

ED 01/17
(May 2017)

Proposed Standard on Assurance Engagements ASAE 3500 *Performance Engagements*

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



Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by no later than 21 July 2017.

Comments should be addressed to:

The Chairman
Auditing and Assurance Standards Board
PO Box 204, Collins Street West
Melbourne Victoria 8007 AUSTRALIA
E-mail: edcomments@auasb.gov.au

A copy of all non-confidential submissions will be placed on public record on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

Obtaining a Copy of this Exposure Draft

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

Contact Details

Auditing and Assurance Standards Board
Podium Level
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 Exposure Draft 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 Exposure Draft 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 1030-603X

CONTENTS

PREFACE

AUTHORITY STATEMENT

CONFORMITY WITH INTERNATIONAL STANDARDS ON ASSURANCE ENGAGEMENTS

	<i>Paragraphs</i>
Application	1
Operative Date	2
Introduction	
Scope of this Standard on Assurance Engagements	3-15
Objectives	16
Definitions	17
Requirements	
Applicability of ASAE 3000	18-20
Ethical Requirements	21
Initiation or Acceptance	22-26
Quality Control	27
Professional Scepticism, Professional Judgement and Assurance Skills and Techniques	28
Planning and Performing the Engagement	29-34
Obtaining Evidence	35-38
Evaluation of Evidence	39
Subsequent Events	40
Forming the Assurance Conclusion	41-42
Preparing the Assurance Report	43-48
Other Communication Responsibilities	49-51
Documentation	52
Application and Other Explanatory Material	
Introduction	A1
Objectives	A2-A4
Ethical Requirements	A5
Initiation or Acceptance	A6-A21
Planning and Performing the Engagement	A22-A35
Obtaining Evidence	A36-A41
Evaluation of Evidence	A42
Subsequent Events	A43
Preparing the Assurance Report	A44-A50
Documentation	A51-A53

Proposed Standard on Assurance Engagements ASAE 3500
Performance Engagements

Appendix 1: Nature of a Performance Engagement

Appendix 2: Example of the Elements of a Performance Engagement

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

Appendix 4: Standards Applicable to Example Engagements on Performance

PREFACE

Reasons for Issuing ED

The AUASB issues exposure draft of proposed Standard on Assurance Engagements ASAE 3500 *Performance Engagements* pursuant to the requirements of the legislative provisions explained below.

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

Main Proposals

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

Proposed Operative Date

It is intended that this proposed Standard on Assurance Engagements will be operative for assurance engagements commencing on or after 1 January 2018 with early adoption permitted.

Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of ASAE 3500 *Performance Engagements* by no later than 21 July 2017. The AUASB is seeking comments from respondents on the following questions:

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

The AUASB prefers that respondents express a clear opinion on whether the proposed Standard on Assurance Engagements, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Standard on Assurance Engagements.

AUTHORITY STATEMENT

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

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

Conformity with International Standards on Assurance Engagements

This Standard on Assurance Engagements has been made 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).

STANDARD ON ASSURANCE ENGAGEMENTS ASAE 3500

Performance Engagements

Application

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

Operative Date

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

Introduction

Scope of this Standard on Assurance Engagements

3. This Standard on Assurance Engagements (ASAE) deals with direct engagements undertaken by an assurance practitioner to provide a reasonable assurance report on an activity's performance evaluated against identified criteria. This ASAE may be applied to limited assurance engagements, adapted and supplemented as necessary in the engagement circumstances. (Ref: Para A1)
4. This ASAE addresses assurance engagements on performance:
 - (a) of any activity, whether within an entity or across multiple entities;
 - (b) evaluated against criteria selected or developed by the assurance practitioner or the engaging party;
 - (c) providing a reasonable assurance conclusion; and
 - (d) for either restricted use, by the engaging party or specified third parties, or to be publicly available, through tabling in Parliament or other means of distribution.
5. This ASAE is written for reasonable assurance direct engagements but may be applied to limited assurance direct engagements, adapted as necessary to reflect the lower level of assurance obtained by the assurance practitioner.
6. Agreed-upon procedures engagements, where procedures are conducted and factual findings are reported but no conclusion is provided, and consulting engagements, for the purpose of providing advice, on performance are not assurance engagements and are not dealt with in this ASAE. Agreed-upon procedures engagements are addressed under Standard on Related Services, ASRS 4400.¹

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

7. The essential elements of performance engagements are:
 - (a) a three party relationship involving:
 - (i) an assurance practitioner, often a State, Territory or National Auditor General;

¹ See ASRS 4400 *Agreed upon Procedures Engagements to Report Factual Findings*.

Proposed Standard on Assurance Engagements ASAE 3500
Performance Engagements

- (ii) a responsible party or a number of responsible parties involved in the activities which are the subject matter of the engagement; and
 - (iii) intended users, which are often the responsible party, Parliament and the general public;
 - (b) an appropriate activity (the subject matter);
 - (c) suitable criteria;
 - (d) sufficient appropriate evidence; and
 - (e) a written assurance report.
8. Performance engagements are most commonly conducted on an activity delivered or controlled by the Government. The purpose of a performance engagement is to evaluate the performance of an activity, with respect to economy, efficiency and/or effectiveness against the identified criteria. The scope of a performance engagement is either determined by an Auditor General based on the assessed information needs of Parliament or of the general public or by the engaging party based on the information needs of the engaging party and other identified users. (Ref: Para A2-A3)
9. Performance engagements are usually initiated by a State, Territory or the National 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 not usually required. The roles and responsibilities of the parties to a performance engagement initiated by an Auditor General are illustrated in Appendix 3. (Ref: Para A4)

Relationship with ASAE 3000, Other Pronouncements and Other Requirements

10. This ASAE adapts the requirements in ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, which is written for attestation engagements, as necessary, to direct engagements on performance and identifies the requirements of ASAE 3000 which the assurance practitioner is required to comply with in conducting a performance engagement in addition to the requirements of this ASAE. The Framework for Assurance Engagements, which defines and describes the elements and objectives of an assurance engagement, provides the context for understanding this ASAE and ASAE 3000.
11. This ASAE requires the assurance practitioner to apply the ASAE 3000 requirement to comply with relevant ethical requirements related to assurance engagements. It also requires the Audit Office of the Auditor General to apply ASQC 1² or the lead assurance practitioner to be a member of a firm that applies ASQC 1.
12. 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.

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

13. In circumstances when an assurance engagement performed under this ASAE includes a compliance section, the assurance practitioner applies both ASAE 3100 *Compliance Engagements* and ASAE 3500 as applicable, in conducting the assurance engagement.
14. 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 engagements the subject matter, 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, criteria or level of assurance in order that the different matters to be concluded upon are clearly differentiated.
15. A table showing the AUASB Standards to apply to performance engagements, depending on the subject matter and engagement circumstances, is contained in Appendix 4.

Objectives

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

Definitions

17. For the purposes of this Standard on Assurance Engagements, the following terms have the meanings attributed below:
 - (a) Activity—a government or private sector provision of products or services, system, operation, function or programme which may be conducted within a single entity or across multiple entities, departments, agencies, joint ventures or other organisations, within a single jurisdiction or across multiple jurisdictions.
 - (b) Assurance practitioner—individual or firm or other organisation, whether in public practice, industry and commerce, or the public sector, providing assurance services including performance engagements. Where this ASAE expressly intends that a requirement or responsibility be fulfilled by the lead assurance practitioner, the term the “lead assurance practitioner” rather than “assurance practitioner” is used.
 - (c) Attestation engagement—An assurance engagement in which a party other than the assurance practitioner measures or evaluates the underlying subject matter against the criteria. The outcome of that measurement or evaluation is often presented in a report or statement.
 - (d) Criteria—The benchmarks used to measure or evaluate the underlying subject matter, which in a performance engagement is the activity. The “identified criteria” are the criteria used for the particular engagement.
 - (e) Direct engagement on performance—A reasonable assurance engagement in which the assurance practitioner evaluates the activity's performance against the identified criteria. The outcome of the assurance practitioner's evaluation is expressed in the assurance practitioner's conclusion.

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

- (p) Reasonable assurance engagement—An assurance engagement in which the assurance practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the assurance practitioner’s conclusion. The assurance practitioner’s conclusion is expressed in a form that conveys the assurance practitioner’s conclusion on the outcome of the evaluation of the activity against identified criteria.
- (q) Representation—Statement by the responsible party, either oral or written, provided to the assurance practitioner to confirm certain matters or to support other evidence.
- (r) Responsible party—The party responsible for the performance of the activity, in a performance engagement.
- (s) Subject matter or underlying subject matter—The activity which is evaluated or measured against the identified criteria.
- (t) Variation —An instance where the underlying subject matter does not meet in whole or part the identified criteria, for example a material departure of performance against the identified criteria.

Requirements

Applicability of ASAE 3000

18. 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.³

Inability to Comply with Mandatory Requirements

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

³ See ASAE 3000, paragraph 2.

Ethical Requirements (Ref: Para A5)

21. As required by ASAE 3000, the assurance practitioner shall comply with relevant ethical requirements related to assurance engagements.⁴

Initiation or Acceptance (Ref: Para A6-A21)

22. 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;
 - (c) The preconditions for an assurance engagement are present, as required by ASAE 3000;⁵ 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.

Preconditions for the Assurance Engagement

23. When establishing whether the preconditions for an assurance engagement are present, the assurance practitioner shall determine, based on their preliminary knowledge of the performance engagement circumstances, whether:
- (a) the activities (underlying subject matter) which are to be evaluated are appropriate;
 - (b) the criteria identified, selected or developed by the assurance practitioner or agreed with the engaging party are suitable in evaluating the activities, including that they exhibit the characteristics of suitable criteria⁶, and will be available to users;
 - (c) the assurance practitioner expects to be able to obtain the evidence needed to support the assurance practitioner's conclusion, which will be contained in a written report; and
 - (d) the engagement has a rational purpose.
24. 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 criteria are reasonable quantitative or qualitative measures of performance against which the activity's performance may be assessed. Suitable criteria for a performance engagement shall reflect the overall objective/s, the assertions to be addressed (economy, efficiency and/or effectiveness) and have the following characteristics:

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

⁵ See ASAE 3000, paragraph 24.

⁶ See ASAE 3000, paragraph 24(b)(ii).

- (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, 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

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

Quality Control

- 27. The assurance practitioner shall implement quality control procedures as required by ASAE 3000.⁷

Professional Scepticism, Professional Judgement and Assurance Skills and Techniques

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

Planning and Performing the Engagement (Ref: Para A22-A34)

Planning

- 29. The assurance practitioner shall plan the engagement so that it will be performed in an effective manner as required by ASAE 3000.⁸

Materiality

- 30. The assurance practitioner shall consider materiality when determining the nature, timing and extent of procedures.
- 31. 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 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.
- 32. 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

⁷ See ASAE 3000, paragraphs 31-36.

⁸ See ASAE 3000, paragraph 40.

as evaluated against the identified criteria. Material variations are those which could adversely impact performance in relation to economy, efficiency and/or effectiveness and be reasonably expected to influence relevant decisions of the intended users of the assurance report.

Understanding the Activity and Other Engagement Circumstances (Ref: Para A35)

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

Obtaining Evidence (Ref: Para A36-A41)

35. Based on the assurance practitioner's understanding obtained in paragraphs 33 and 34 the assurance practitioner shall:
- (a) identify and assess the risks of material variation in the activity's performance to be concluded upon;
 - (b) consider the impact of assessed risks on the appropriateness of the engagement objective and the suitability of the criteria and, if necessary, seek to amend the objective and/or criteria;
 - (c) design and perform assurance procedures to respond to assessed risks identified in paragraph 35(a); and
 - (d) obtain sufficient appropriate evidence to support the assurance practitioner's conclusion.

Work Performed by an Assurance Practitioner's Expert

36. When the assurance practitioner plans to use the work of an assurance practitioner's expert, the assurance practitioner shall comply with the requirements in ASAE 3000.⁹

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

37. If the assurance practitioner plans to use information prepared by another party as evidence, the assurance practitioner shall comply with the requirements of ASAE 3000.¹⁰

Written Representations

38. The assurance practitioner may obtain written representations, as appropriate for the engagement, from the responsible party or parties.

⁹ See ASAE 3000, paragraph 52.

¹⁰ See ASAE 3000, paragraphs 53-54.

Evaluation of Evidence (Ref: Para A42)

39. The assurance practitioner shall evaluate the impact of identified variations in the entity's performance of the activity which are material, individually or in combination, on the assurance practitioner's conclusion. The assurance practitioner shall describe the extent and impact of those variations and conclude whether the activity partially performed or did not perform against the identified criteria in the assurance report.¹¹

Subsequent Events (Ref: Para A43)

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

Forming the Assurance Conclusion

41. The assurance practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained in the context of the performance engagement, and if necessary, attempt to obtain further evidence. If the assurance practitioner is unable to obtain necessary further evidence, the assurance practitioner shall consider the implications for the assurance practitioner's conclusion. The assurance practitioner shall state in their conclusion that there was not sufficient or appropriate evidence to conclude whether the activity performed in all material respects, in terms of economy, efficiency and/or effectiveness, as evaluated against the identified criteria.¹²
42. The assurance practitioner shall form a conclusion about whether the performance of the activity as evaluated against the identified criteria is free of material variation. In forming that conclusion, the assurance practitioner shall consider the outcomes of procedures performed in paragraphs 39, 40 and 41.

Preparing the Assurance Report (Ref: Para A44-A50)

43. The assurance report shall be in writing and shall contain a clear expression of the assurance practitioner's reasonable assurance conclusion about the activity's performance.
44. The assurance practitioner's conclusion shall be clearly separated from other sections of the assurance report containing information or explanations that are not intended to affect the assurance practitioner's conclusion, including findings and recommendations.

Assurance Report Content

45. The assurance report shall include at a minimum the following base elements, to the extent that it is not inconsistent with relevant legislation or regulation:
- (a) a title, indicating that it is an independent assurance report;
 - (b) an addressee;
 - (c) identification of the scope of the engagement including:

¹¹ The equivalent conclusion in ASAE 3000 is a qualified or adverse conclusion.

¹² The equivalent conclusion in ASAE 3000 is a qualified conclusion or disclaimer.

Proposed Standard on Assurance Engagements ASAE 3500
Performance Engagements

- (i) the responsible party (parties);
 - (ii) the activity which was the subject matter of the performance engagement;
 - (iii) identification of the criteria for evaluating the performance of the activity and the party specifying those criteria, if it was not the assurance practitioner; and
 - (iv) if appropriate, a description of any significant inherent limitations associated with the evaluation of the activity's performance against the identified criteria;
- (d) a statement that the responsible party is responsible for the activity covered by the assurance practitioner's report;
- (e) a statement that the assurance practitioner's responsibility is to express a conclusion on the activity's performance in relation to economy, efficiency and/or effectiveness as evaluated against the identified criteria;
- (f) a statement that the engagement was performed in accordance with ASAE 3500 *Performance Engagements*;
- (g) a statement that:
- (i) the office or firm of which the assurance practitioner is a member applies ASQC 1; and
 - (ii) the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements;
- (h) 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;
- (i) the assurance practitioner's conclusion about the performance, in terms of economy, efficiency and/or effectiveness, of the activity as evaluated against the identified criteria;
- (j) when the assurance practitioner has been unable to obtain sufficient appropriate evidence or has identified material variations in the activity's performance in terms of economy, efficiency and/or effectiveness as evaluated against the identified criteria, the assurance report shall contain:
- (i) a description of the extent and impact of those matter(s); and
 - (ii) the assurance practitioner's conclusion that either the activity did not perform in certain material respects, did not perform in all material respects, or there was not sufficient or appropriate evidence to conclude whether the activity was performed.
- (k) signature of the assurance practitioner, the Audit Office or location in the jurisdiction where the assurance practitioner practices, and the date of the assurance report.
46. If the assurance practitioner is required to conclude on other subject matters under different AUASB standards in conjunction with an engagement to report under this ASAE, the assurance report shall include a separate section for each subject matter in the assurance report, clearly differentiated by appropriate section headings.

Scope Limitation

47. A limitation on the scope of the assurance practitioner's work may be imposed by the terms of the engagement, if the engagement was initiated by an engaging party, or by the circumstances of the particular engagement. When the limitation is imposed by the terms of the engagement,

and it is likely to prevent the assurance practitioner from reaching a conclusion, the engagement shall not be accepted, unless required to do so by law or regulation.

48. When a scope limitation is imposed by the circumstances of the particular engagement, the assurance practitioner shall attempt to perform alternative procedures to overcome the limitation. When a scope limitation exists and remains unresolved, the wording of the assurance practitioner's conclusion shall describe the limitations on their engagement and the matters on which they are unable to conclude.

Other Communication Responsibilities

49. If during the course of the engagement the assurance practitioner identifies any material variations in the activity's performance, the assurance practitioner shall report those variations to the responsible party(ies) on a timely basis in order to allow the responsible party sufficient time to investigate and respond to the identified variations.
50. The assurance practitioner shall consider whether, pursuant to the terms of the engagement, if applicable, other engagement circumstances or legislative requirements, any matter that has come to the attention of the assurance practitioner that is to be communicated with Parliament, the responsible party, the engaging party (if applicable) or others, as required by ASAE 3000.¹³
51. The assurance practitioner shall determine whether there is a responsibility or legislative requirement for the assurance practitioner to report the occurrence or suspicion of fraud or other misconduct to a party outside the entity, including Parliament, a regulator or government agency. Any such reporting shall be in accordance with the relevant legislation.

Documentation (Ref: Para A51-A53)

52. The assurance practitioner shall prepare documentation in accordance with ASAE 3000.¹⁴ 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.

* * *

¹³ See ASAE 3000, paragraph 78.

¹⁴ See ASAE 3000, paragraphs 79-83.

Application and Other Explanatory Material

Introduction (Ref: Para 3-7)

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

Objectives (Ref: Para 8-9)

- A2. The objectives of a performance engagement may be expressed in various ways and are often presented as a statement of purpose or “questions” which are considered in the context of the responsible party’s responsibilities with respect to economy, efficiency and effectiveness. In these circumstances, the assurance practitioner exercises professional judgement in determining the use of the most appropriate terminology throughout the performance engagement and especially in the assurance report.
- A3. Performance engagements may address a broad range of activities including:
- (a) systems for planning, budgeting, authorisation, control and evaluation of resource allocation;
 - (b) systems established and maintained to ensure compliance with an entity’s mandate as expressed in policies or legislation;
 - (c) resource management framework;
 - (d) measures aimed at deriving economies of scale, such as centralised resource acquisition, sharing common resources across a number of business units;
 - (e) measures aimed at improving economy, efficiency and/or effectiveness;
 - (f) the assignment of responsibilities and accountability;
 - (g) measures to monitor outcomes against predetermined objectives and performance benchmarks;
 - (h) program or service delivery; and
 - (i) implementation of government policy.
- A4. In the public sector, the conduct of performance engagements by Auditors-General is legislated in the respective jurisdictions. While the legislative requirements may have either a narrow or broad scope, performance engagements may include examination of:
- (a) economy, efficiency and/or effectiveness:
 - (i) in terms of management systems or an entity’s management in order to contribute to improvements;

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

Ethical Requirements (Ref: Para 21)

- A5. Relevant ethical requirements include the following fundamental principles with which the assurance practitioner is required to comply:
- (a) integrity;
 - (b) objectivity, including independence;
 - (c) professional competence and due care;
 - (d) confidentiality; and
 - (e) professional behaviour.

Initiation or Acceptance (Ref: Para 22-26)

Preconditions for the Assurance Engagement

- A6. In the public sector, if an engagement is initiated by the assurance practitioner, some of the preconditions for the assurance engagement may be assumed to be present if they are set out in legislation, such as the roles and responsibilities of the responsible party and the right of access to information by the assurance practitioner.
- A7. When initiating or accepting a performance engagement, in order to satisfy themselves that those persons who are to perform the engagement collectively have the appropriate competence and capabilities, the assurance practitioner may need to either assemble a multi-disciplinary team or be a specialist in the relevant discipline.
- A8. When multi-disciplinary teams are used in a performance engagement, adequate direction, supervision and review are particularly important so that the team members' different perspectives, experience and specialties are appropriately used. It is important that all team members understand the objectives of the particular performance engagement and the terms of reference of work assigned to them. Adequate direction, supervision and review are important so that the work of all team members is executed properly and is in compliance with this ASAE and meets the quality control requirements of ASAE 3000.

Assessing the appropriateness of the subject matter

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

- the information about it is capable of being subjected to procedures for gathering sufficient appropriate evidence to support a conclusion.
- A10. If after initiating or accepting the performance engagement, the assurance practitioner concludes that the activity is not an appropriate subject matter, the assurance practitioner assesses whether to:
- change the scope of the performance engagement or, if terms of the engagement have been agreed with the engaging party, seek to amend those terms; or
 - withdraw from or discontinue the performance engagement.
- A11. In a performance engagement initiated by the assurance practitioner, the identification of the subject matter and development of criteria will be an iterative process which evolves as the audit objective/s are clarified and refined, based on the information gathered during the engagement. As the assurance practitioner gains a better understanding of the engagement circumstances they may revise their assessment of the matters which address the needs of users.
- A12. In the event that the assurance practitioner is unable to change the scope or terms of, or withdraw from or discontinue, the performance engagement, under paragraph A10 of this ASAE, the assurance practitioner needs to consider the implications for the assurance report.

Assessing the Suitability of the Criteria

- A13. Criteria are the specific measures used to assess the performance of the activity. They may be based on relevant legislation, guidelines, internal policies and procedures, industry standards or best practice. Criteria which address each objective or sub-objective are developed or identified in planning the 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 selected criteria are suitable.
- A14. The assurance practitioner assesses the suitability of the criteria to evaluate or measure the performance of the activity, with respect to economy, efficiency and/or effectiveness to be addressed within the scope of the engagement.
- A15. 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.
- A16. Criteria are either established or specifically developed. Ordinarily, established criteria are suitable when they are relevant to the needs of the intended users. Specific users may, however, develop a more detailed set of criteria that meet their specific needs in which case the assurance report may state, if it is relevant to the intended users:
- that the criteria are not embodied in laws or regulations, or issued by authorised or recognised bodies of experts that follow a transparent due process; and

- that the assurance report is only for the use of the intended users and for their purposes.
- A17. If after initiating or accepting the performance engagement, the assurance practitioner concludes that the identified criteria are not suitable, the assurance practitioner may either:
- identify or develop suitable criteria;
 - seek to change the terms of the performance engagement, if necessary, such as when the terms have been agreed with an engaging party; or
 - withdraw from or discontinue the performance engagement.
- A18. In the event that the assurance practitioner is unable to change the terms of, or withdraw from or discontinue, the performance engagement, the assurance practitioner considers the implications for the assurance report.

Agreeing on or Communicating the Terms of the Performance Engagement

- A19. The terms of the performance engagement normally identify:
- (a) the objectives of the engagement;
 - (b) that the engagement is a reasonable assurance engagement;
 - (c) the activity to be evaluated in the engagement;
 - (d) the period to be covered by the engagement;
 - (e) economy, efficiency and/or effectiveness 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 assurance 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 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 Engagement (Ref: Para 29-32)

- A22. Planning involves developing an overall strategy for the scope, emphasis, timing and conduct of the performance engagement, and a performance engagement plan, consisting 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 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 their direction and supervision and the review of their work; and
 - Assists, where applicable, the coordination of work done by other assurance practitioners and experts.
- A23. The nature and extent of planning activities will vary with the performance engagement circumstances, for example the size and complexity of the activity and the assurance practitioner's previous experience with it. Examples of the main matters to be considered include:
- 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 and the assessment of risk.
 - Personnel and expertise requirements, including the nature and extent of involvement by experts.
- A24. Planning is not a discrete phase, but rather a continual and iterative process throughout the performance engagement. As a result of unexpected events, changes in conditions, or the evidence obtained from the results of evidence-gathering procedures, the assurance practitioner may need to revise the overall strategy and performance engagement plan, and as such the resulting planned nature, timing and extent of further evidence-gathering procedures.
- A25. In planning the engagement, if the scope of the engagement is based on overall objectives, then the assurance practitioner may identify sub-objectives from which they can identify, select or develop the criteria, against which the activity's performance can be evaluated.

Materiality

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

criteria may discuss materiality in different terms, the concept of materiality generally includes the matters discussed in paragraphs A28–A36. If the identified criteria do not include a discussion of the concept of materiality, these paragraphs provide the assurance practitioner with a frame of reference.

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

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

- A29. Materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. The relative importance of qualitative factors and quantitative factors when considering materiality in a particular 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 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 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 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.

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

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

- 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.

- Identifying where special consideration may be necessary, for example factors indicative of wastage or fraud, and the need for specialised skills or the work of an expert.
- Establishing and evaluating the continued appropriateness of quantitative levels of performance (where appropriate), and considering qualitative materiality factors or benchmarks.
- Developing expectations for use when undertaking analytical procedures.
- Use of data analytical tools to undertake the engagement.
- Designing and undertaking further evidence-gathering procedures to reduce risk to an appropriate level.
- Evaluating evidence, including the reasonableness of the responsible party's oral and written representations.

Obtaining Evidence (Ref: Para 35-38)

- A36. 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.
- A37. 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.
- A38. In a performance engagement if the assurance practitioner becomes aware of a matter that leads the assurance practitioner to question whether sufficient appropriate evidence has been obtained, the assurance practitioner ordinarily pursues the matter by undertaking other evidence-gathering procedures sufficient to enable the assurance practitioner to report.

Written Representations

- A39. If the 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 engagement.
- A40. Representations by the responsible party cannot replace other evidence the assurance practitioner could reasonably expect to be available. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the evaluation or measurement of the activity, when such evidence would ordinarily be available, constitutes a limitation on the scope of the performance engagement, even if a representation from the responsible party has been received on the activity.
- A41. Written representations may include that the responsible party:
- (a) acknowledges its responsibility for conducting the activity, intended to achieve a certain level of performance;
 - (b) has provided the assurance practitioner with all relevant information and access agreed to, as set out in paragraph A20;

- (c) has disclosed to the assurance practitioner any of the following of which it is aware may be relevant to the engagement:
- (i) variations in achievement of intended performance; or
 - (ii) any events subsequent to the period covered by the assurance practitioner's report up to the date of the assurance report that could have a significant effect on the assurance practitioner's report.

Evaluation of Evidence (Ref: Para 39)

A42. The assurance practitioner needs to consider the impact of material variations in the performance of the activity when evaluated against the identified criteria, on the conclusions in the assurance report. A variation is material when, in the assurance practitioner's judgement, it has the potential to adversely affect:

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

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

Subsequent Events (Ref: Para 40)

A43. The extent of consideration of subsequent events that come to the attention of the assurance practitioner depends on the potential for such events to affect the activity and to affect the 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.

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

A44. 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 Public accounts and estimates Committee (PAEC) or other appropriate user, in confidence. The Auditor General considers the public interest in determining whether the assurance report will be made publicly available.

A45. This ASAE does not require a standardised format for reporting on performance engagements even though paragraph 45 identifies the basic elements of the assurance report. For instance, under:

- 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(i), 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.

A46. Therefore, assurance reports are tailored to the specific performance engagement circumstances with the assurance practitioner using professional judgement in deciding how best to meet the reporting requirements detailed in paragraph 45 in conveying the conclusion(s). The assurance practitioner includes the matters in paragraph 45 as a minimum and reports in the manner and to the extent necessary to facilitate effective communication to the intended users. Whilst the assurance conclusion makes a clear statement communicating the assurance practitioner's conclusion, the assurance report may include other matters which the assurance practitioner considers meet the information needs of the intended users, such as:

- terms of the performance engagement
- overall objectives and sub-objectives of the 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.

Reporting Findings, Recommendations and Responsible Party Comments

A47. The assurance practitioner may expand the assurance report to include other information and explanations, including:

- Relevant background information and historical context.
- The assurance approach.
- Underlying facts and identified criteria applied.
- 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.

A48. The decision to include any such information depends on its significance to the needs of the intended users. Additional information is clearly separated from the assurance practitioner's conclusion and worded in such a manner so as not to affect that conclusion.

Variations in the Activity's Performance

A49. 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 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 engagement, as a whole; or

Proposed Standard on Assurance Engagements ASAE 3500
Performance Engagements

- (c) the assurance practitioner was unable to conclude on the activity's performance when the assurance practitioner was unable to obtain sufficient appropriate evidence regarding the activity's performance as a whole.

A50. The assurance practitioner's conclusions described in paragraph A49, are equivalent modified conclusions under ASAE 3000 and the equivalent terms in ASAE 3000¹⁵ are:

- A qualified conclusion – circumstances described in sub-paragraph A49(a).
- An adverse conclusion – circumstance described in sub-paragraph A49(b).
- A disclaimer of conclusion – circumstance described in sub-paragraph A49(c).

Documentation (Ref: Para 52)

A51. 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.

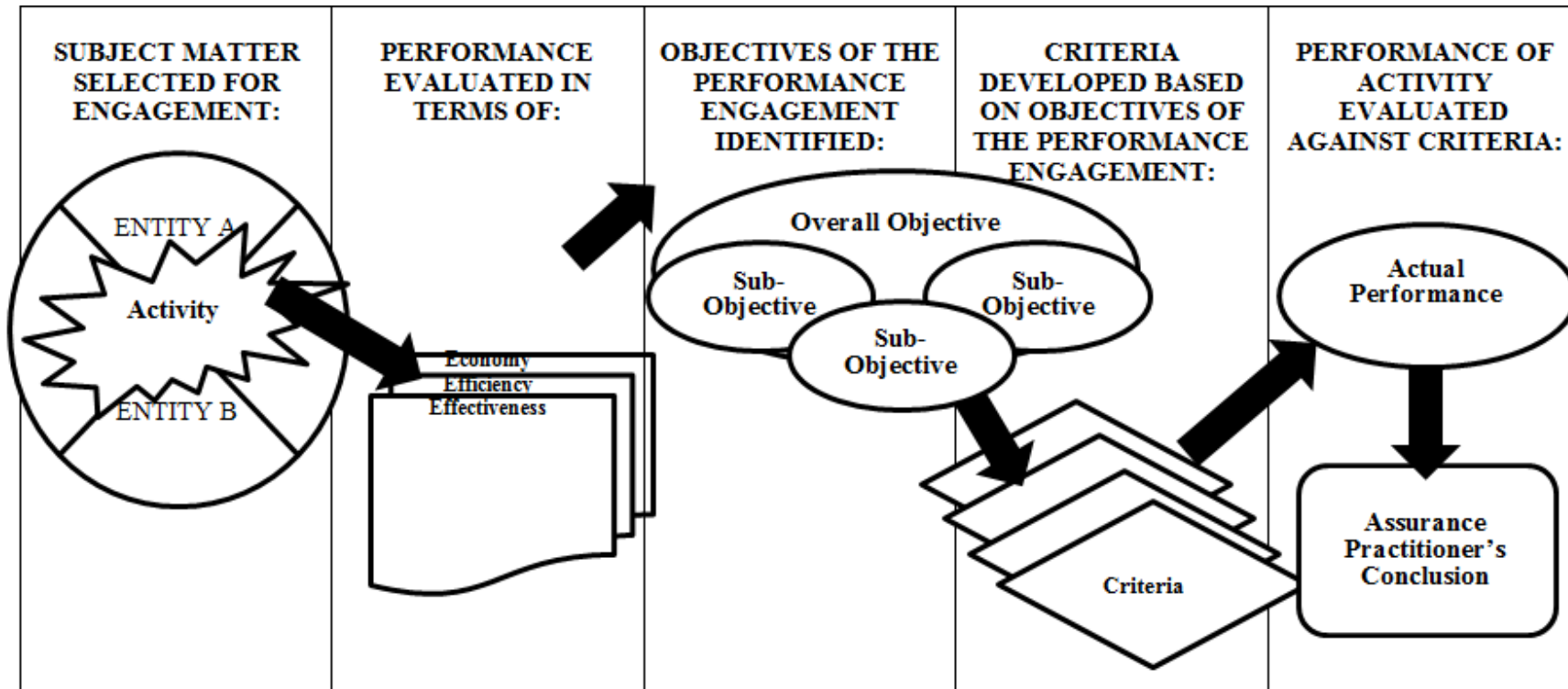
A52. In applying professional judgement to assessing the extent of documentation to be prepared and retained, the assurance practitioner considers what is necessary to provide an understanding of the work undertaken, the results of that work, the evidence obtained and the basis of the principal decisions taken to another experienced assurance practitioner, who has no previous connection with the performance engagement. It is, however, neither necessary nor practicable to document every matter the assurance practitioner considers during the performance engagement.

A53. Identifying characteristics of the activity's performance being tested that the assurance practitioner may document include:

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

¹⁵ See ASAE 3000, paragraphs 74-75.

THE NATURE OF A PERFORMANCE ENGAGEMENT



Appendix 2

(Ref: Para.7)

EXAMPLE OF THE ELEMENTS OF A PERFORMANCE ENGAGEMENT

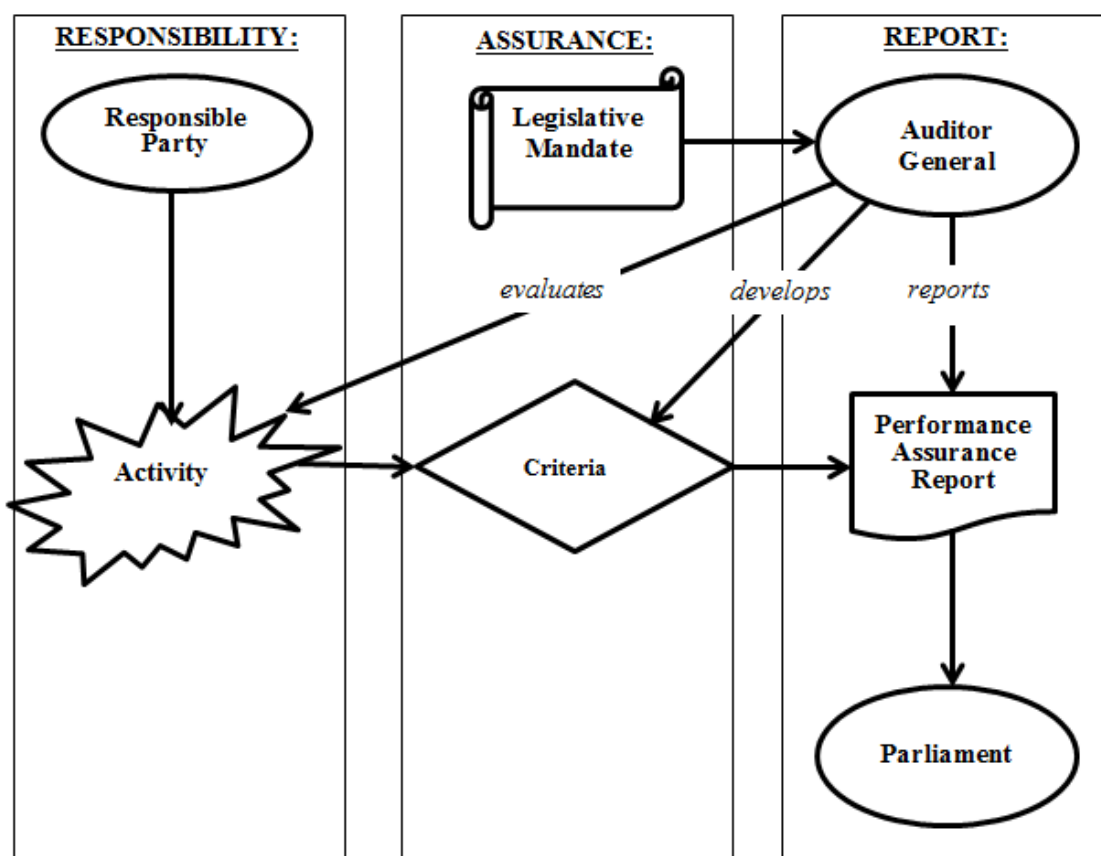
Engagement Objective/ Audit Question/ Scope	Performance Assertion	Subject Matter/ Activity	Agency/ Entity	Criteria	Assurance Conclusion
How effectively pests are managed in the jurisdiction?	Effectiveness	Management of existing pests.	Public sector agencies and landholders	<p>Framework for management of pests.</p> <p>Co-operation & collaboration between agencies and landholders co-ordinated.</p> <p>Pest control activities based on identified priorities including:</p> <ul style="list-style-type: none"> - Prevention of new pests. - Highest environmental impact. - Greatest chance of controlling pest. 	<p>Conclude that pests were managed effectively.</p> <p>Or 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. <p>Or 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 measures undertaken to inform resource allocation and priorities. - Lack of adequate data on threats of new pests from other jurisdictions.

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 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.15)

STANDARDS APPLICABLE TO EXAMPLE ENGAGEMENTS ON AN ACTIVITY'S PERFORMANCE

SUBJECT MATTER	APPLICABLE AUASB STANDARDS			
	ASAE 3000 Assurance Engagements (not Historical Financial Information)	ASAE 3500 Performance Engagements	ASAE 3100 Compliance Engagements	ASAE 3150 Assurance Engagements on Controls
1. Performance of an activity in achieving economy, efficiency and/or effectiveness, where there is no attestation (direct engagement)	✓ ¹⁶	✓		
2. Performance of an activity in complying with legislative and regulatory requirements	✓		✓	
3. Design and operating effectiveness of controls over an activity's performance in achieving economy, efficiency and/or effectiveness.	✓			✓

¹⁶ 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.