

EXPOSURE DRAFT

**ED XX/15**  
(XX XXXX)

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

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

Draft

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**Australian Government**

**Auditing and Assurance Standards Board**

## **Commenting on this Exposure Draft**

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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](http://www.auasb.gov.au)

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***Performance Engagements***

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## PREFACE

### Reasons for Issuing ED XX/15

The AUASB issues exposure draft ED XX/15 of proposed Standard on Assurance Engagements ASAE 3500 *Performance Engagements* pursuant to the requirements of the legislative provisions explained below.

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 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 assurance engagements on performance. The standard replaces Standard on Assurance Engagements ASAE 3500 *Performance Engagements*, issued by the AUASB in July 2008 and last revised in October 2008. This Standard on Assurance Engagements facilitates conformity with current AUASB Standards ~~and revised ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information issued in June 2014~~. The standard reflects best practice in performance engagements and clarifies how to scope, conduct and report on an assurance engagement on performance, to ensure that assurance engagement quality is 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 July 2016 with early adoption permitted.

### Main changes from existing ASAE 3500 *Performance Engagements* (October 2008)

The main differences between this proposed Standard on Assurance Engagements and the Standard on Assurance Engagements that it supersedes, ASAE 3500 *Performance Engagements* (October 2008), are included in the Tables of Differences provided as an attachment to this Exposure Draft.

### Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of ASAE 3500 *Performance Engagements* by no later than ~~XX October XXX 2015~~<sup>6</sup>. 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 business community 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?

65. 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.

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### **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, ~~and ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, which provides the overarching requirements for all assurance engagements other than those engagements relating to historical financial information.~~

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### **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).

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# STANDARD ON ASSURANCE ENGAGEMENTS ASAE 3500

## *Performance Engagements*

### Application

1. This Standard on Assurance Engagements applies to direct ~~assurance~~ engagements to provide ~~an~~ 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 July 2016, 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 ~~assurance~~ engagements undertaken by an assurance practitioner to provide a ~~reasonable~~ assurance report on ~~whether~~ an activity's performance achieved ~~evaluated against~~ identified ~~performance objectives~~ criteria, during the period. This ASAE may be applied to attestation performance engagements, adapted and supplemented as necessary in the engagement circumstances.
4. This ASAE addresses assurance engagements on performance:
  - (a) ~~of any activity, whether within an entity or across multiple entities; in achieving outputs or outcomes;~~
  - (b) with respect to identified performance principles;
  - ~~(b)~~(c) evaluated against criteria selected or developed by the assurance practitioner or the engaging party ~~the achievement of either overall or specific performance objectives;~~
  - ~~(c)~~(d) providing a limited ~~or~~ reasonable assurance conclusion; and
  - ~~(d)~~(e) for either restricted use, by the engaging party or specified third parties, or to be publicly available, through tabling in Parliament or publication ~~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.
- 4.6. 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.<sup>1</sup>

#### *Nature of a Performance Engagement*

7. The essential elements of performance engagements are:
  - (a) a three party relationship involving:

<sup>1</sup> See ASRS 4400 *Agreed upon Procedures Engagements to Report Factual Findings*.

- (i) an assurance practitioner, often a state, territory or national auditor-general;
  - (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 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 in the public sector, on an activity delivered or controlled by the Government, either directly through an agency, department or government entity or through provision of a grant or subsidy. Performance engagements are initiated by a State, Territory or the National Auditor-General under their legislative mandate, but can also be conducted in the private sector. The purpose of a performance engagement is to evaluate the performance, with respect to selected performance principles (usually economy, efficiency or effectiveness, but could also address other principles, such as probity, ethical responsibility or environmental responsibility) of an activity in achieving intended outputs or outcomes. The scope of a performance engagement is either determined by an auditor-general based on meet the assessed information needs of Parliament, Government or the general public, when conducted by an Auditor General, or by the engaging party based on the information needs of the engaging party and other identified users, when conducted in the private sector regarding whether those activities are economical, efficient or effective, and may extend to other matters such as ethical or low environmental impact.
5. 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 Auditor General selects activities as the subject of a performance engagement based on the priorities of their Audit Office. The authority of an auditor-general to conduct of a performance engagement will derive from their legislative mandate, of the Auditor General and consequently the engaging party is by reference Parliament or the Government. In these circumstances the party responsible for the activity does not usually 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 in the public sector are illustrated in Appendix 1.
6. Performance engagements may also be conducted in the private sector, in which case the engaging party will usually be the entity responsible for the activity which is subject to the performance engagement. In these circumstances terms of engagement would be agreed with the engaging party.
- 7.9. The style and content of reports for performance engagements in the public sector may vary between jurisdictions and not align with the requirements of ASAE 3000 or this ASAE. This ASAE provides requirements with respect to reporting in these circumstances. The roles and responsibilities of the parties to a performance engagement initiated by an auditor-general are illustrated in Appendix 1.

*Relationship with ASAE 3000, Other Pronouncements and Other Requirements*

- 8.10. This ASAE adapts the requirements in ASAE 3000, 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. ASAE 3000 includes requirements in relation to such topics as engagement acceptance, planning,

## Proposed Standard on Assurance Engagements ASAE 3500 Performance Engagements

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~~obtaining evidence and documentation that apply to all assurance engagements, including engagements conducted in accordance with this ASAE.~~ The Assurance Framework, which defines and describes the elements and objectives of an assurance engagement, provides the context for understanding this ASAE and ASAE 3000.

~~9.~~ ~~Compliance~~ ~~This ASAE requires the assurance practitioner to apply the~~ ~~with~~ ASAE 3000 requires, ~~among other things,~~ ~~ment~~ ~~that the assurance practitioner to~~ ~~complies~~ ~~y~~ with relevant ethical requirements related to assurance engagements. It also requires the audit office of the auditor-general to apply ASQC 1 or the lead assurance practitioner to be a member of a firm that applies ASQC 1.

~~11.~~

~~10.~~ An assurance engagement performed under this ASAE may be part of a larger engagement. ~~In such circumstances, this ASAE is relevant only to the section of the engagement relating to assurance on performance.~~

~~11.~~ ~~12.~~ If multiple standards are applicable to the assurance engagement, the assurance practitioner applies, ~~in addition to ASAE 3000,~~ 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.

~~13.~~ ~~In circumstances when a performance engagement includes a compliance section, the assurance practitioner needs to apply both ASAE 3100 and ASAE 3500 as applicable, in conducting the assurance engagement. However, if there is any inconsistency, ASAE 3500 applies.~~

~~12.~~ ~~14.~~ Assurance conclusions on performance may be required by Parliament, legislation, industry bodies or other users in conjunction with assurance conclusions on financial reports, 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~~ ~~includes~~ separate sections for each subject matter, criteria or level of assurance in order that the different matters concluded upon are clearly differentiated.

~~13.~~ ~~15.~~ A table showing the AUASB Standards to apply to performance engagements depending on the subject matter and engagement circumstances is contained in Appendix ~~23.~~

### Objectives

~~14.~~ ~~16.~~ The objectives of the assurance practitioner for a performance engagement are:

- (a) to obtain ~~either~~ reasonable ~~or limited~~ assurance about ~~an activity's performance in achieving intended outputs or outcomes against identified criteria~~ ~~whether, in all material respects, the activity achieved the identified performance objectives,~~ during the period; and
- (b) to express a **reasonable assurance** conclusion through a written report on the matters in (a) above which ~~expresses either a reasonable or limited assurance conclusion and~~ describes the basis for the conclusion.

### Definitions

~~15.~~ ~~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 ~~undertaking, 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.
- ~~(b)~~(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.
- ~~(c)~~ Criteria—The benchmarks used to measure or evaluate the underlying subject matter, which in a performance engagement is the activity, which in a performance engagement are the identified performance objectives. The “applicable criteria” are the criteria used for the particular engagement.
- (d) Deficiency in performance—A failure to achieve a performance objective in whole or in part
- ~~(e)~~ .
- ~~(d)~~(e) Direct engagement on performance—A reasonable ~~or limited~~ assurance engagement in which the assurance practitioner evaluates the activity’s performance against the ~~performance objectives~~ 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, availability of required quantity and quality.
- (g) Effectiveness—the performance principle relating to the extent to which the intended outputs or outcomes 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.
- ~~(e)~~(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 may provide a broad the mandate for the auditor-general to conduct performance engagements, but will not usually engage the auditor-general to perform specific performance engagements, in which case there may be no engaging party.
- (k) Environmental responsibility—the performance principle of minimising the environmental impacts of the activity.
- (l) Ethical responsibility—the performance principle of maximising the ethically acceptable or socially responsible manner by which the activity is conducted.
- ~~(f)~~(m) Intended users—Parliament, individual(s) or organisation(s), or group(s) thereof that the assurance practitioner expects will use the assurance report. In some cases, there

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may be intended users other than those to whom the assurance report is addressed, such as the general public if the assurance report is ~~published~~made publicly available.

~~(g)~~(n) 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 expressing a conclusion 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 performed with respect to the selected performance principles in achieving the identified performance objectives outputs or outcomes, as evaluated by the 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.

~~(h)~~ Long form report—~~Assurance report including recommendations, other information or explanations that are intended to meet the information needs of users but not to affect the assurance practitioner’s conclusion. In addition to the matters required to be contained in the assurance practitioner’s report, as set out in paragraph 41, long form reports may describe in detail matters such as:~~

- ~~(i) the terms of the engagement;~~
- ~~(ii) the detailed criteria being used, such as the specific performance objectives;~~
- ~~(iii) descriptions of the assurance procedures that were performed;~~
- ~~(iv) findings relating to the assurance procedures that were performed or particular aspects of the engagement;~~
- ~~(v) details of the qualifications and experience of the assurance practitioner and others involved with the engagement;~~
- ~~(vi) disclosure of materiality levels; or~~
- ~~(vii) recommendations for improvements in the activities to better achieve the performance objectives.~~

~~The assurance practitioner may find it helpful to consider the significance of providing such information to meet the needs of the intended users. As required by paragraph 40, additional information is clearly separated from the assurance practitioner’s conclusion and worded in such a manner as make it clear that it is not intended to alter or detract from that conclusion.~~

~~(i)~~(o) Outcomes—the impacts on society or segments of society, which occur as a result of, or are reasonably attributable to the activity’s outputs.

~~(j)~~(p) Outputs—goods and/or services provided by an activity to external recipients and include (but are not limited to):

- (i) services provided directly to individuals and/or institutions, for example, health or education services or the provision of goods such as food or books;

- (ii) services provided indirectly to individuals and/or institutions, for example, services which aim to develop, promote, protect or defend a community, institution, country, or community values and rights;
- (iii) transfers to individuals and/or institutions, for example, cash transfers and the provision of economic incentives such as tax incentives;
- (iv) provision of policies, regulations or legislation to achieve public policy goals, which includes, for example, revenue related legislation and the enforcement of such legislation; and
- (v) collection of taxes and other revenues.

(q) ~~Materiality-~~ in relation to performance of an activity, the shortcomings in performance that have the potential to affect the decisions of users with respect to the matters effecting the activity, including resource allocation.

~~(r)~~ Performance engagement—An assurance engagement to conclude on ~~whether the performance, in the context of identified performance principles, of an activity, within a single entity or across multiple entities, has in achieved-achieving identified performance objectives~~ intended outputs or outcomes, commonly referred to as a performance audit.

(s) Performance Principle—the aspect of performance of relevance to the performance engagement which provides the context within which performance is evaluated. Performance principles most commonly include: economy, efficiency and effectiveness, but may extend to probity, ethical responsibility or environmental responsibility. Compliance is not a performance principle as that is the subject matter of a compliance engagement conducted under ASAE 3100.<sup>2</sup>

(t) Probity—the performance principle relating to ethical behaviour, reflecting integrity, uprightness and honesty, that upholds public values and ensures impartiality, accountability and transparency.

(u) Professional scepticism—an attitude that includes a questioning mind, being alert to the validity of evidence obtained and to evidence that contradicts or brings into question the reliability of documents and responses to enquiries and other information obtained.

~~(v)~~ 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 in a performance engagement is expressed in a form that conveys the assurance practitioner’s ~~opinion~~ conclusion on the outcome of the evaluation of the activity against identified ~~performance objectives~~ criteria.

~~(w)~~ Representation—Statement by the responsible party, either oral or written, provided to the assurance practitioner to confirm certain matters or to support other evidence.

~~(x)~~ Responsible party—The party responsible for the performance of the activity, in a performance engagement.

~~(y)~~ Service performance information—reported information describing:

- (i) an entity’s service performance objective(s);

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<sup>2</sup> See ASAE 3100 *Compliance Engagements*.

- (ii) an entity's performance indicators relating to:
  - a. inputs;
  - b. outputs;
  - c. the outcomes that an entity is seeking to influence;
  - d. the link between inputs and outputs and/or outcomes (efficiency); and
  - e. the link between outputs and/or outcomes and service performance objectives (effectiveness).
- (iii) the assumptions that underlie the service performance information and the methodologies adopted in compiling the service performance information; and
- (iv) risks and the risk management strategies associated with achievement of the entity's service performance objectives.

~~(p) Short form report—Assurance report including only the matters required under paragraph 41 of this ASAE.~~

~~(z) Shortcoming in performance—A weakness or deficiency in the activity's performance, with respect to the selected performance principles, in achieving the intended outputs or outcomes, in whole or in part.~~

~~(q)(aa) Subject matter or underlying subject matter—The activity which is seeking to achieve the performance objectives intended outputs or outcomes.~~

## **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 ~~relevant 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 ~~assurance~~ engagements, adapted and supplemented as necessary in the engagement circumstances.<sup>3</sup>

### 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.

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<sup>3</sup> See ASAE 3000, paragraph 2.

~~16.20.~~ When the assurance practitioner is unable to undertake appropriate alternative evidence-gathering procedures, the assurance practitioner shall assess the implications for the assurance report.

### Ethical Requirements

~~17.21.~~ As required by ASAE 3000, the assurance practitioner shall comply with relevant ethical requirements related to assurance engagements.<sup>4</sup>

### Initiation or Acceptance

#### ~~Preconditions for the Assurance Engagement~~

~~18.22.~~ 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;<sup>5</sup> and
- (d) The basis on which the engagement is to be performed has been communicated and, if possible, agreed by ~~Confirming that there is a common understanding between~~ 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, in an engagement conducted by an Auditor General, by issuing a written communication advising the responsible party of the planned engagement; or,
  - ~~(i) —~~  
the engaging party, in an engagement conducted by an assurance practitioner in the private sector,

~~of the terms of engagement, including the assurance practitioner's reporting~~ Preconditions for the Assurance Engagement

- ~~(ii) — responsibilities.~~

~~19.23.~~ 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 ~~in addressing the needs of the intended users;~~
- (b) The ~~performance objectives (criteria)~~ identified, selected or developed by the assurance practitioner ~~in the public sector~~ or agreed with the engaging party ~~in the~~

<sup>4</sup> See ASAE 3000, paragraphs Aus 20.1 and ASA 102.

<sup>5</sup> See ASAE 3000, paragraph 24.



~~private sector~~ are suitable, including that they exhibit the characteristics ~~set out in ASAE 3000~~ of suitable criteria (Ref: Para. 1(a)), and will be available to users;<sup>6</sup>

- (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 ~~and, in the case of a limited assurance engagement, the assurance practitioner expects to be able to obtain a meaningful level of assurance.~~

24. When identifying, selecting or developing suitable criteria or determining whether the 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 audit objective/s, the performance principles to be addressed and the intended outputs or outcomes of the activity and have the following characteristics:

- (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.

#### *Communicating with the Responsible Party* Agreeing on the Terms of Engagement

20. ~~ASAE 3000<sup>7</sup> requires the parties to the engagement to agree on the terms of the assurance engagement in writing, however in a performance engagement, if the assurance practitioner is a State, Territory or National Auditor General, they may not be engaged by another party, but initiate the engagement under their mandate. If the engagement is initiated by an engaging party, the assurance practitioner shall agree t~~The terms of engagement shall be agreed with the engaging party in writing if there is an engaging party and if there is no engaging party, the responsible party shall be advised of the terms of engagement prior to commencement of the engagement. The assurance practitioner shall communicate with the responsible party::

- 21. ~~the performance objectives and whether they were identified, developed or selected by the assurance practitioner or another party; and;~~
- 22. ~~that it acknowledges and understands its responsibility for providing the assurance practitioner with:~~
- 23. ~~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;~~
- 24. ~~additional information that the assurance practitioner may request from the responsible party for the purposes of the assurance engagement; and~~

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<sup>6</sup> See ASAE 3000, paragraph 24(b)(ii).

<sup>7</sup> See ASAE 3000, paragraph 27.

- ~~25. unrestricted access to persons engaged in the activity from whom the assurance practitioner determines it necessary to obtain evidence.~~
- ~~26. The terms of engagement shall identify:~~
- ~~27. the purpose of the engagement;~~
- ~~28. whether the engagement is a reasonable or limited assurance engagement;~~
- ~~29. the activity to be evaluated in the engagement;~~
- ~~30. the period to be covered by the engagement;~~
- ~~31. the performance objectives against which the activity will be evaluated;~~
- ~~32. the intended users of the assurance report;~~
- ~~33. the content of the assurance report, including whether it will be a short form or long form report, including additional information such as the performance objectives, procedures conducted, detailed findings and recommendations; and~~
25. any other matters required by law or regulation to be included in the terms of engagement.
- (a) —

#### Quality Control

- ~~34.~~26. The assurance practitioner shall implement quality control procedures as required by ASAE 3000.<sup>8</sup>

#### Professional Scepticism, Professional Judgement and Assurance Skills and Techniques

- ~~35.~~27. The assurance practitioner shall apply professional scepticism, exercise professional judgement and apply assurance skills and techniques in planning and performing an assurance engagement on controls, ~~as required by ASAE 3000.~~<sup>9</sup>

#### Planning and Performing the Engagement

##### *Planning*

- ~~36.~~ The assurance practitioner shall plan the engagement so that it will be performed in an effective manner as required by ASAE 3000.<sup>10</sup>
- ~~37.~~28. ~~In planning the engagement, if the scope of the engagement is based on overall performance objectives, then the assurance practitioner shall identify, select or develop specific performance objectives, to achieve the agreed overall performance objectives, against which the activity's performance can be tested.~~

##### *Materiality*

- ~~38.~~29. The assurance practitioner shall consider materiality, ~~as required by ASAE 3000,~~<sup>11</sup> when determining the nature, timing and extent of procedures.
- ~~39.~~30. The assurance practitioner shall identify ~~a performance measure~~ any matter relating to the activity as material if it is ~~fundamental~~ significant to the performance of the activity in

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<sup>8</sup> See ASAE 3000, paragraphs 31-36.

<sup>9</sup> See ASAE 3000, paragraphs 37-39.

<sup>10</sup> See ASAE 3000, paragraph 40.

<sup>11</sup> See ASAE 3000, paragraph 44.

achieving the ~~ement~~ of a performance objective(s) intended outputs or outcomes to be concluded upon. During the engagement the assurance practitioner shall reassess the materiality of ~~the performance measures~~ any matters ~~if matters come to their attention which there is any~~ indication that the basis on which the materiality ~~of those performance measures~~ was determined has changed.

- 40-~~31~~. The assurance practitioner shall also consider materiality when evaluating the effect of ~~accumulated deficiencies~~ shortcomings, individually and in combination, in the performance of the activity ~~to in~~ achieving the performance identified objectives ~~outputs or outcomes~~. Material ~~deficiencies~~ shortcomings are those which could detrimentally impact performance in the achievement ~~achieving of~~ one or more performance identified objective ~~outputs or outcomes~~ and be reasonably be expected to influence relevant decisions of the intended users.

#### *Understanding the Activity and Other Engagement Circumstances*

- 41-~~32~~. 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 identify and assess the risks of shortcomings in the activity's performance in achieving the intended outputs or outcomes. In obtaining this understanding, the assurance practitioner shall obtain an understanding of internal control relevant to the measurement or evaluation of the activity's performance against the criteria. This includes evaluating the design of those controls relevant to the engagement and determining whether they have been implemented by performing procedures in addition to enquiry of the responsible party, and on the basis of that understanding, the assurance practitioner shall:
- (a) ~~consider whether the identification, selection or development of performance objectives is appropriate, and/or select or develop further suitable performance objectives;~~
  - (b) ~~identify and assess the risks that threaten achievement of each of the performance objectives to be concluded upon;~~
  - (c) ~~as a basis for designing and performing assurance procedures to respond to the risks identified in paragraph 30(b); and~~
  - (d) ~~obtain an understanding of the controls over achieving the performance objectives, evaluating the design of those controls and determining whether they have been implemented.~~

#### **Obtaining Evidence**

33. Based on the assurance practitioner's understanding obtained under paragraph 32 the assurance practitioner shall:
- (a) identify and assess the risks that threaten the activity's performance in achievement of each of the outputs or outcomes 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 ~~33(b)~~ ~~33(a)~~ to obtain ~~limited or reasonable assurance~~ sufficient appropriate evidence to support the assurance practitioner's conclusion.

## Proposed Standard on Assurance Engagements ASAE 3500 Performance Engagements

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### *Work Performed by an Assurance Practitioner's Expert*

- 42.34. 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.<sup>12</sup>

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

- 43.35. If the assurance practitioner plans to use information prepared ~~using the work of by~~ another ~~assurance practitioner, a responsible party's or evaluator's expert or an internal auditor~~ party, as evidence, the assurance practitioner shall comply with the requirements of ASAE 3000.<sup>13</sup>

### *Written Representations*

36. The assurance practitioner shall ~~request~~ endeavour to obtain written representations, as appropriate for the engagement, from the responsible party, ~~or other relevant person(s) within the entity or parties, to provide written representations, in addition to those required by ASAE 3000,~~<sup>14</sup>

44. ~~that the responsible party:~~

45. ~~acknowledges its responsibility for conducting the activity, intended to achieve the performance objectives;~~

46. ~~has provided the assurance practitioner with all relevant information and access agreed to, as set out in paragraph 21(b);~~

47. ~~has disclosed to the assurance practitioner any of the following of which it is aware may be relevant to the engagement:~~

48. ~~deficiencies in achievement of the performance objectives; or~~

49. ~~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.~~

### **Subsequent Events**

- 50.37. When relevant to the engagement, the assurance practitioner shall consider the effect on activity's performance of events up to the date of the assurance report, and shall respond appropriately to facts that become known to the assurance practitioner after the date of the assurance report, that, had they been known to the assurance practitioner at that date, may have caused the assurance practitioner to amend the assurance report. Assurance procedures required to be conducted under ASAE 3000,<sup>15</sup> The extent of consideration of subsequent events depends on 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, to identify all matters up to the date of the assurance report that may have caused the assurance practitioner to amend the assurance report on the activity's performance, shall include enquiry as to whether the responsible party is aware of any events subsequent to the period covered by the assurance engagement up to the date of the assurance practitioner's report that may have caused the assurance practitioner to amend the assurance report. If the assurance practitioner is aware of such an event, remedial action is either not taken or is not effective in mitigating the impact on the assurance

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<sup>12</sup> See ASAE 3000, paragraph 52.

<sup>13</sup> See ASAE 3000, paragraphs 53-54.

<sup>14</sup> See ASAE 3000, paragraph 56.

<sup>15</sup> See ASAE 3000, paragraph 61.

~~conclusion and information about that event is not disclosed by the responsible party, the assurance practitioner shall disclose the subsequent event in the assurance practitioner's report. If the event may impact the assurance conclusion, the assurance practitioner shall gather further evidence sufficient to determine whether the assurance conclusion remains appropriate or a modified assurance conclusion is required.~~

### Forming the Assurance Conclusion

- ~~51.~~38. The assurance practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained on the activity's performance in achievement of each ~~performance objective~~output or outcome -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, ~~in accordance with ASAE 3000.~~<sup>16</sup> The assurance practitioner shall ~~express the possible extent and impact of undetected deficiencies on the activity's achievement of the performance objectives due to an inability to obtain sufficient appropriate evidence and~~ state in their conclusion that there was not sufficient or appropriate evidence to conclude whether the activity performed, in terms of the performance principles, in achieved~~ing~~ the ~~performance objective(s) intended outputs or outcomes~~ during the period.<sup>17</sup>
- ~~52.~~ When the assurance practitioner forms a conclusion in accordance with ASAE 3000,<sup>18</sup> ~~the assurance practitioner shall evaluate the materiality, individually and in aggregate whether due to fraud or error, of any deficiencies in the activity's achievement of the performance objectives.~~
- ~~53.~~39. The assurance practitioner shall assess the impact of identified ~~deficiencies~~shortcomings in performance in achievement of the ~~performance objectives~~outputs or outcomes, which are material individually or in combination, on the assurance practitioner's conclusion on the performance of the activity. The assurance practitioner shall describe the extent and impact of those ~~deficiencies~~shortcomings and conclude whether the activity partially ~~achieved~~performed or did not ~~achieve~~perform, in terms of the selected performance principles, in achieving the intended outputs or outcomes~~the performance objective(s)~~ in the assurance report.<sup>19</sup>

### Preparing the Assurance Report

- ~~54.~~40. The assurance report shall be in writing and shall contain a clear expression of the assurance practitioner's reasonable ~~or limited~~assurance conclusion about the activity's performance.
- ~~55.~~41. 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 ~~nor to detract from that conclusion~~, including recommendations, ~~which are included in the assurance report.~~

### Assurance Report Content

- ~~56.~~42. The assurance practitioner shall include in the assurance report the following basic elements ~~required by ASAE 3000,~~<sup>20</sup> ~~which are~~ at a minimum, 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;

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<sup>16</sup> See ASAE 3000, paragraph 66.

<sup>17</sup> The equivalent conclusion in ASAE 3000 is a qualified conclusion or disclaimer.

<sup>18</sup> See ASAE 3000, paragraphs 64-65.

<sup>19</sup> The equivalent conclusion in ASAE 3000 is a qualified or adverse conclusion.

<sup>20</sup> See ASAE 3000, paragraph 69.

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

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- ~~(e)~~ an identification of whether reasonable assurance (audit) or limited assurance (review) has been obtained by the assurance practitioner;
- ~~(d)~~(c) identification of the scope activity which is the subject matter of the engagement including:
  - ~~(i)~~ (i) the distinguishing features of the activity which was the subject matter of to the performance engagement;
  - ~~(ii)~~ (ii) the performance principles (economy, efficiency, effectiveness or other principles) applied in the evaluation of the activity's performance;
  - ~~(iii)~~ (iii) the period covered by the performance engagement;
  - ~~(iv)~~ (iv) identification of the overall and/or objectives, specific performance sub-objectives used as and/or criteria for evaluating the performance of the activity and the party specifying those performance objectives or criteria, including whether those objectives were developed by if it was not the Auditor General or the assurance practitioner;
  - ~~(v)~~ (v) if appropriate, a description of any significant inherent limitations associated with the evaluation of the activity's performance against the performance objectives criteria;
- ~~(e)~~ a statement that the responsible party is responsible for
- ~~(f)~~ the activity covered by the assurance practitioner's report;
- ~~(g)~~(d) designing and implementing controls to mitigate the risks which threaten achievement of the performance objectives;
- ~~(h)~~(e) a statement that the assurance practitioner's responsibility is to express a conclusion on the activity's performance in achieving the performance objectives intended outputs or outcomes, which addresses the audit objective;
- ~~(i)~~(f) a statement that the engagement was performed in accordance with ASAE 3500 *Performance Engagements*;
- ~~(g)~~ a statement that:
  - ~~(i)~~ (i) the office or Audit Office or firm of which the assurance practitioner is a member applies ASQC 1; and
  - ~~(ii)~~ (ii) a statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements;
- ~~(j)~~ a summary of the work performed by the assurance practitioner to obtain reasonable or limited assurance and a statement of the assurance practitioner's belief that the evidence obtained is sufficient and appropriate to provide a basis for the assurance practitioner's conclusion. In the case of a limited assurance engagement, in which an appreciation of the nature, timing, and extent of procedures performed is essential to understanding the assurance practitioner's conclusion, the summary of the work performed shall state that:
- ~~(k)~~ the procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and
- ~~(l)~~(h) consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed;

- ~~(m)~~(i) a statement of the limitations of a performance engagement and, if applicable, of the risk of projecting to other periods the outcome of any evaluation of the activity's performance;
- ~~(n)~~(j) ~~either, the assurance practitioner's opinion for a reasonable assurance engagement or the assurance practitioner's conclusion for a limited assurance engagement about whether, in all material respects, the performance, in terms of the selected performance principles, of the activity in achieving the performance objectives intended outputs or outcomes during the period, which addresses the audit objective;~~
- ~~(o)~~(k) when the assurance practitioner has been unable to obtain sufficient appropriate evidence or has identified ~~deficiencies shortcomings~~ in the activity's ~~performance in achievement of the intended outputs and outcomes performance objectives~~, 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 respects, did not perform in all respects partially achieved, did not achieve or there was not sufficient or appropriate evidence to conclude whether the activity performed in achieving the identified outputs or outcomes, achieved, the performance objective(s) during the period;~~
- ~~(p)~~(l) (1) ~~identification of the Auditor General or the assurance practitioner, the audit office or location in the jurisdiction where the assurance practitioner practices and the date of the assurance report.~~

~~57. If the assurance practitioner is required to provide a long form assurance report to meet the information needs of users, as agreed in the terms of engagement, or as required by law or regulation, the assurance practitioner's report shall include a separate section, or an attachment, containing any other information and explanations that are not intended to affect the assurance practitioner's conclusion and are clearly identified as such.~~

~~58.~~43. 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.

#### *Emphasis of Matter and Other Matter Paragraphs*

~~59. If the assurance practitioner considers it necessary to communicate a matter that, in the assurance practitioner's judgement, is relevant to intended users' understanding of the engagement, the assurance practitioner's responsibilities or the assurance report, the assurance practitioner shall include a description of that matter in the assurance report and clearly indicate that the assurance practitioner's conclusion is not affected by the matter.~~

#### *Modified Conclusions Shortcomings in the Activity's Performance*

~~60.~~44. If the assurance practitioner concludes that the activity ~~did not perform in certain respects, did not perform in all respects~~ has not achieved the performance objectives during the period or the assurance practitioner is unable to obtain sufficient appropriate evidence as to whether the activity performed, in terms of the selected performance principles, in achieving the intended outputs or outcomes during the period, the assurance practitioner shall ~~express state~~ provide a clear description of the extent of the shortcomings in performance and the actual or potential impacts of the identified ~~deficiencies shortcomings or possible impact of undetected deficiencies in the activity's performance on the activity's achievement of the performance objective(s).~~

### Scope Limitation

- ~~61.~~45. 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 ~~believes that an inability to form an opinion or reaching~~ a conclusion ~~would need to be expressed~~, the engagement shall not be accepted, unless required to do so by law or regulation.
- ~~62.~~46. 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 indicate the effects of any deficiency in the activity's achievement of the performance objectives which might have been identified had the limitation not existed the matters on which they are unable to conclude.

### Other Communication Responsibilities

47. If during the course of the engagement the assurance practitioner identifies any significant shortcomings in the activity's performance, the assurance practitioner shall report those shortcomings to the responsible party on a timely basis to allow the responsible party sufficient time to respond to those comments.
- ~~63.~~48. The assurance practitioner shall consider whether, pursuant to the terms of the engagement, if applicable, and other engagement circumstances or legislative requirements, any matter has come to the attention of the assurance practitioner that is to be communicated with Parliament, the responsible party, the engaging party (if applicable) or others, as required by ASAE 3000.<sup>21</sup> ~~If during the course of the engagement the assurance practitioner identifies any significant deficiencies in the activity's performance, the assurance practitioner shall report those deficiencies to the responsible party on a timely basis.~~
- ~~64.~~49. The assurance practitioner shall determine whether there is a responsibility or legislative requirement to report the occurrence or suspicion of fraud or other misconduct to a party outside the entity, including Parliament, a regulator or government agency. If the assurance practitioner has identified a fraud or has obtained information that indicates that a fraud may exist, the assurance practitioner shall communicate these matters on a timely basis to the responsible party, unless prevented from doing so by law or regulation, in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. ~~The assurance practitioner shall determine whether there is a responsibility or legislative requirement to report the occurrence or suspicion to a party outside the entity, including Parliament or the Government.~~
- ~~65.~~ ~~The assurance practitioner shall design engagement procedures to gather sufficient appropriate evidence to form a conclusion in accordance with the terms of the engagement, if applicable. In the absence of a specific requirement in the terms of engagement the assurance practitioner does not have a responsibility to design procedures to identify matters outside the scope of the engagement that may be appropriate to report to the responsible party.~~

### Documentation

- ~~66.~~50. The assurance practitioner shall prepare documentation in accordance with ASAE 3000.<sup>22</sup> In documenting the nature, timing and extent of procedures performed as required by ASAE 3000, the assurance practitioner shall record:

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<sup>21</sup> See ASAE 3000, paragraph 78.

<sup>22</sup> See ASAE 3000, paragraphs 79-83.



- (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 and extent of such review.

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## Application and Other Explanatory Material

### Application

A1. This ASAE addresses direct engagements and so does not address assurance engagements on service performance information, which are attestation engagements on reports an activity's performance ~~as measured by key performance indicators (KPIs). Meeting KPI targets may be indicative of the achievement of performance objectives, but are not usually sufficient on their own as a basis for concluding on the achievement of performance objectives. Additional factors will usually need to be considered and professional judgement exercised in order to draw such conclusions. Consequently, an assurance report on service performance information provides a conclusion on measurement and presentation of the KPI itself.~~

### Introduction

A2. 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;
- ~~(a)~~(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

A3. The objectives of a performance engagement may be expressed in various ways and are often presented as ~~statement of purpose or "audit questions"~~ which are ~~intended to be answered in the assurance report.~~ considered in the context of the responsible party's responsibilities and the performance principles to be addressed. Performance principles addressed are typically, but are not limited 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.

A4. 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;
- (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 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.

A5. 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 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.

A2. —

## **Definitions**

A3. —

## **Applicability of ASAE 3000**

A4. —

## **Ethical Requirements**

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

- (a) integrity;
- (b) objectivity, including independence;
- (c) professional competence and due care;
- (d) confidentiality; and
- ~~(e)~~ (e) professional behaviour.

## **Initiation or Acceptance**

### Preconditions for the Assurance Engagement

A7. 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.

A8. 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.

A5-A9. 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

A10. 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.

A11. 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.

A12. 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.

A13. In the event that the assurance practitioner is unable to change the scope or terms of, or withdraw from or discontinue, the performance engagement, under paragraph A11 of this ASAE, the assurance practitioner needs to consider the implications for the assurance report.

#### Assessing the Suitability of the Criteria

A14. 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, benchmarks, good 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) developed by the assurance practitioner themselves, in which case the assurance practitioner ordinarily documents why the selected criteria are suitable.
- A15. The assurance practitioner assesses the suitability of the criteria to evaluate or measure the performance, with respect to each performance principle to be addressed within the scope of the engagement, of the activity in achieving the identified outputs or outcomes.
- A16. 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.
- 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.
- A19. Criteria are either established or specifically developed. Ordinarily, established criteria are suitable when they are relevant to the needs of the intended users. When established criteria exist for an activity, specific users may agree to other criteria for their specific purposes. 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.

## **Quality Control**

### ***Agreeing on the Terms of Engagement***

- A20. The terms of engagement ordinarily 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) the performance principles to be addressed and related 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 expected content of the assurance report ; and
- (h) any other matters required by law or regulation to be included in the terms of engagement.

A21. 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 information, such as records, documentation and other matters of which the responsible party is aware are relevant to the activity's performance;
- (b) 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.

A22. 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 situations 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.

- (a) —

#### **Professional Scepticism, Professional Judgement and Assurance Skills and Techniques**

- A6. —

#### **Planning and Performing the Engagement**

A23. 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 problems 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.
- Assists, where applicable, the coordination of work done by other assurance practitioners and experts.

A24. 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.

A25. 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 thereby the resulting planned nature, timing and extent of further evidence-gathering procedures.

A26. In planning the engagement, if the scope of the engagement is based on overall objectives, then the assurance practitioner ordinarily identifies sub-objectives from which they can identify, select or develop the criteria, against which the activity's performance can be evaluated.

#### Materiality

A27. In considering materiality the assurance practitioner needs to understand and assess what shortcomings in meeting the identified criteria might influence the decisions of the intended users. Materiality is considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and extent of the effect of these factors on the evaluation or measurement of the activity and the interests of the intended users. The assessment of materiality and the relative importance of quantitative and qualitative factors in a particular performance engagement are matters for the assurance practitioner's judgement.

A28. Quantitative and qualitative factors which the assurance practitioner may consider when assessing materiality may include:

- The magnitude of the impacts of the activity's performance.
- The relative importance of the matter to achieving the intended outputs or outcomes.
- The financial impact of the matter on the activity as a whole.
- The nature of relevant transactions, whether they involve high volumes, large dollar values and complex transactions relative to the activity as a whole.
- The extent of interest shown in particular aspects of the activity by, for example, the legislature or other governing body, regulatory authorities or the public.
- The potential economic, social, political and environmental impact of the poor performance of the matter within the activity.

#### Understanding the Activity and Other Engagement Circumstances

A29. Obtaining an understanding of the activity and other performance engagement circumstances is an essential part of planning and conducting a performance engagement. That understanding ordinarily 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.
- 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**

A30. 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.

A31. 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.

~~A7.~~A32. 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**

A33. Ordinarily, 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.

A34. 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.

A35. Written representations may include that the responsible party:

- (a) acknowledges its responsibility for conducting the activity, intended to achieve the identified outputs or outcomes;



- ~~(b)~~ has provided the assurance practitioner with all relevant information and access agreed to, as set out in paragraph A22;
- ~~(c)~~ has disclosed to the assurance practitioner any of the following of which it is aware may be relevant to the engagement:
- ~~(d)~~ shortcomings in achievement of intended outputs or outcomes; or
- ~~(a)(e)~~ 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.

### Subsequent Events

~~A8.A36.~~ 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.

### Forming the Assurance Conclusion

~~A9.~~ When the assurance practitioner's conclusion expresses the possible extent and impact of undetected deficiencies in the activity's performance due to an inability to obtain sufficient appropriate evidence in the course of the performance engagement, then their conclusion is equivalent to a qualified conclusion or disclaimer under ASAE 3000.

~~A10.A37.~~ When the assurance practitioner's conclusion expresses the extent and impact of deficiencies in the activity's performance identified in the course of the performance engagement, then their conclusion is equivalent to a qualified or adverse conclusion under ASAE 3000.

### Preparing the Assurance Report

~~A38.~~ 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 the 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 be provided to the Public Accounts Committee or other appropriate user, in confidence. The auditor-general considers the public interest in determining whether the performance assurance report will be made publically available. ~~Some matters may need to remain confidential in order to protect national security.~~

~~A39.~~ This ASAE does not require a standardised format for reporting on all performance engagements even though paragraph 42 identifies the basic elements of the assurance report. For instance, under:

- ~~•~~ Paragraph 42(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 42(j), 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.

~~A40.~~ 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 42 in conveying the conclusion(s). The assurance practitioner includes the matters in paragraph 42 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: the terms of the performance engagement, the objectives and sub-objectives of the engagement, the criteria used, 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*

A41. 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 criteria applied.
- Disclosure of materiality levels.
- Findings relating to particular aspects of the performance engagement.
- Analysis of the causes of shortcomings in the activity's performance.
- Recommendations to address shortcomings identified.
- Comments received in response to the report from the responsible party/ies.

A42. 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.

*Shortcomings in the Activity's Performance*

A43. If material shortcomings are identified, the assurance practitioner's conclusion clearly reflects that either:

- (a) the activity did not perform, in terms of identified performance principles, with respect to certain outputs or outcomes, when the shortcomings identified in the activity's performance are restricted to certain outputs or outcomes of the activity or certain objectives or sub-objectives of the engagement;
- (b) the activity did not perform, in terms of the identified performance principles, when the shortcomings identified in the activity's performance impact the outputs and outcomes of the activity or the objective of the engagement, as a whole ;
- (c) the assurance practitioner was unable to conclude on the activity's performance with respect to certain outputs or outcomes, when the assurance practitioner was unable to obtain sufficient appropriate evidence with respect only to those outputs or outcomes; or
- (d) 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.

A44. The assurance practitioner's conclusions described in paragraph A43, are equivalent modified conclusions under ASAE 3000 and the equivalent terms in ASAE 3000<sup>23</sup> are:

- A qualified conclusion – circumstances described in sub-paragraphs A43(a) and A43(c).
- An adverse conclusion – circumstance described in sub-paragraph A43(b).
- A disclaimer of conclusion – circumstance described in sub-paragraph A43(d).

#### **Other Communication Responsibilities**

##### **Documentation**

A45. Documentation includes a record of the assurance practitioner's reasoning on all significant matters that require the exercise of 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.

~~A44.~~A46. In applying professional judgement to assessing the extent of documentation to be prepared and retained, the assurance practitioner ordinarily 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.

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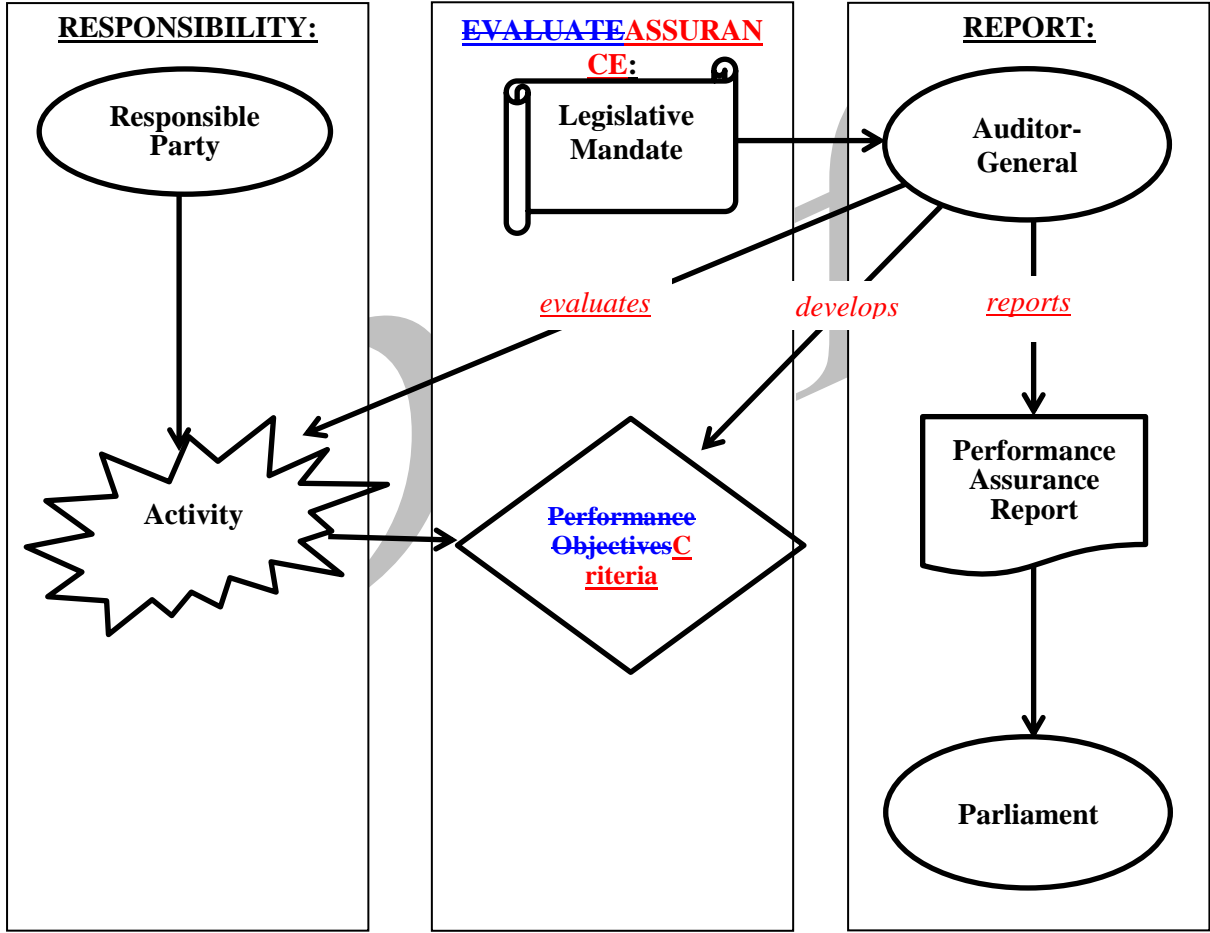
<sup>23</sup> See ASAE 3000, paragraphs 74-75.

Appendix 1

(Ref: Para. )

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

The diagram below illustrates the relationships in a performance engagement conducted by an auditor-general.

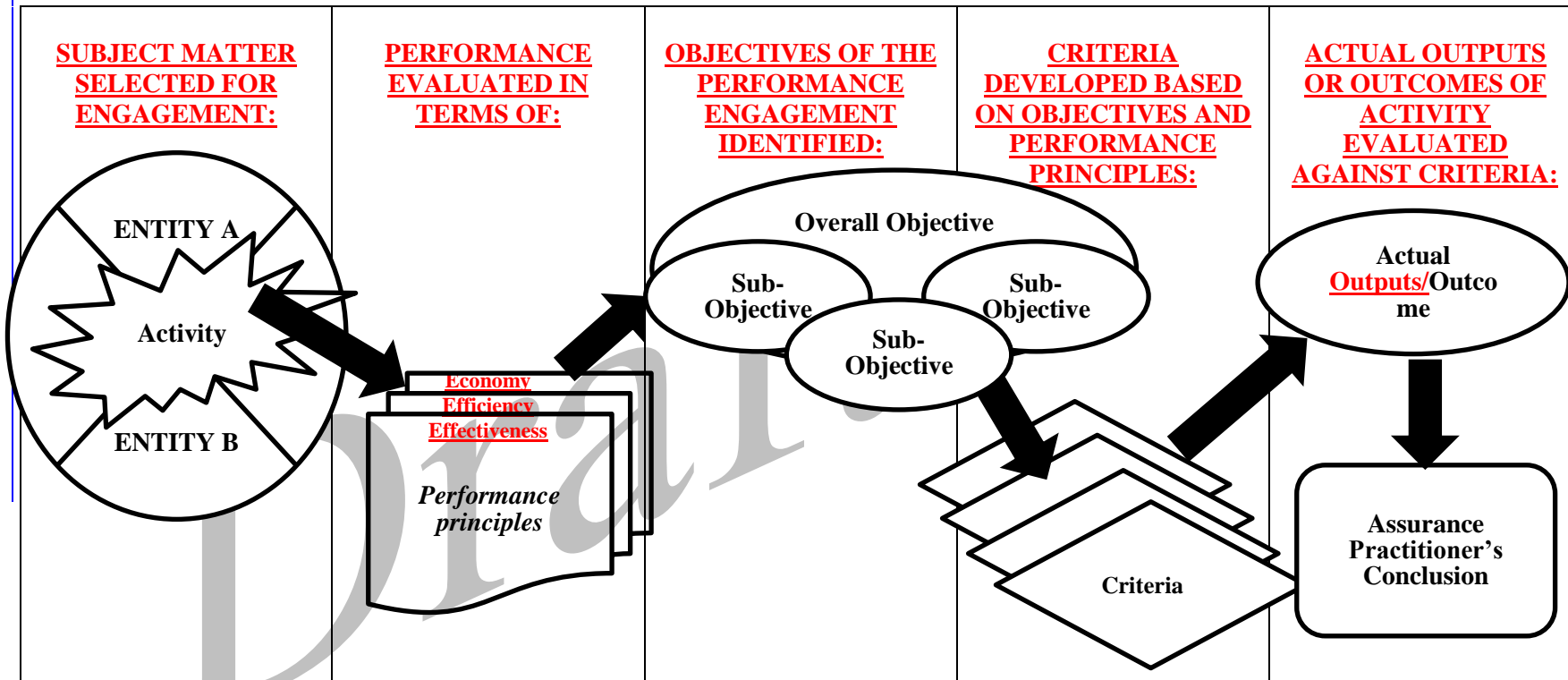


Under their legislative mandate, the auditor-general selects an activity, conducted by the responsible party or parties, to be the subject matter of a performance engagement. The auditor-general identifies performance principles (economy, efficiency, effectiveness or other principles) to be applied and develops suitable criteria. An auditor-general evaluates the activity, in terms of the performance principles, against those the performance objectives criteria and to obtains assurance on which to base their conclusion. performance assurance report. The performance assurance report is ordinarily tabled in Parliament.

**Appendix 2**

(Ref: Para. )

**THE NATURE OF A PERFORMANCE ENGAGEMENT**



(Ref: Para. )

**STANDARDS APPLICABLE TO ENGAGEMENTS ON AN ACTIVITY’S PERFORMANCE**

SUBJECT MATTER	APPLICABLE AUASB STANDARDS			
	ASAE 3000 <i>Assurance Engagements (not Historical Financial Information)</i>	ASAE 3500 <i>Performance Engagements</i>	ASAE 3100 <i>Compliance Engagements</i>	ASAE 3150 <i>Assurance Engagements on Controls</i>
1. Performance of an activity in achieving <u>performance objectives</u> <u>outputs or outcomes, where there is no attestation (direct engagement)</u>	✓ <sup>24</sup>	✓		
2. Performance of an activity in complying with legislative and regulatory requirements	✓		✓	
3. Design and operating effectiveness of controls over an activity’s <u>performance in achieving of performance identified objectives</u> <u>outputs or outcomes.</u>	✓			✓
4. <u>Service performance information reported by an entity</u>	✓			

<sup>24</sup> 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.

**Appendix 4**

(Ref: Para. )

**EXAMPLE OF THE ELEMENTS OF A PERFORMANCE ENGAGEMENT**

<u>Engagement Objective/ Audit Question/ Scope</u>	<u>Performance Principle/s</u>	<u>Subject Matter/ Activity</u>	<u>Agency/ Entity</u>	<u>Criteria</u>	<u>Assurance Conclusion</u>
<u>How effectively pests are managed in the jurisdiction?</u>	<u>Effectiveness</u>	<u>Management of existing pests.</u>	<u>Public sector agencies and landholders</u>	<u>Framework for management of pests.</u>  <u>Co-operation &amp; collaboration between agencies and landholders co-ordinated.</u>  <u>Pest control activities based on identified priorities including:</u> <ul style="list-style-type: none"> <li>- <u>Prevention of new pests.</u></li> <li>- <u>Highest environmental impact.</u></li> <li>- <u>Greatest chance of controlling pest.</u></li> </ul>	<u>Conclude that pests were managed effectively.</u>  <u>Or conclude that pests were not managed effectively due to:</u> <ul style="list-style-type: none"> <li>- <u>Lack of a jurisdiction-wide plan to implement framework and allocate roles &amp; responsibilities.</u></li> <li>- <u>Little monitoring or enforcement of landholders responsibilities regarding pest control.</u></li> </ul> <u>Or conclude that there is insufficient evidence as to whether or the extent to which pests are managed effectively due to:</u> <ul style="list-style-type: none"> <li>- <u>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.</u></li> <li>- <u>Lack of adequate data on threats of new pests from other jurisdictions.</u></li> </ul>

**Appendix 3**

(Ref: Para.)

**EXAMPLE ENGAGEMENT LETTER**

**Appendix 4**

(Ref: Para.)

**EXAMPLE REPRESENTATION LETTER**

**Appendix 5**

(Ref: Para.)

**EXAMPLE ASSURANCE REPORTS ON PERFORMANCE**

**Appendix 6**

(Ref: Para.)

**EXAMPLE MODIFIED REASONABLE ASSURANCE REPORTS ON PERFORMANCE**

Draft



**Tables of Differences — ASAE 3500 and Existing ASAE 3500**

*Summary of Main Differences — ASAE 3500 and Existing ASAE 3500*

The table below details the main differences (excluding editorial amendments) between this proposed Standard on Assurance Engagements and existing ASAE 3500.

Item #	New Standard Para. No.	Requirements/Significant Guidance Extract	Commentary

Draft