



# AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.**           **5**

**Meeting Date:**               12 September 2017

**Subject:**                       Comments on Disposition and final revised ASAE 3500 Performance Engagements

**Date Prepared:**             28 August 2017

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**Action Required**

**For Information Purposes Only**

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## Agenda Item Objectives

To provide the AUASB with the comments received and proposed disposition paper and final revised ASAE 3500 *Performance Engagements* for consideration and approval.

## Background

1. The final ED 01/17 *Proposed Standard on Assurance Engagements ASAE 3500 Performance Engagements* was issued on 22 May 2017 for a 60 day exposure period closing on 21 July 2017. Three submissions were received from EY, ACAG and CPA refer attachments 5.3, 5.4 and 5.5.
2. Discussions with the PAG Chair were held in early August to discuss the comments received and the draft proposed disposition paper and to agree the proposed responses to the questions raised on submission and any flow through changes to the final revised ASAE 3500.

## Matters to Consider

### *Part A – General*

3. Whilst all the matters raised by stakeholders have been dealt with in detail in the comments on disposition paper there are two that the ATG and PAG Chair felt should be highlighted to the Board for consideration:
  - 3.1 **ACAG Overall Comment (Refer Comments and Disposition Paper Agenda Item 5.1 -Q7 pg 17)**

As ACAG members discussed with the AUASB through the Project Advisory Group consultation process, the intention of the AUASB to prepare the proposed standard as a sector-neutral performance engagement standard within the *Framework for Assurance Engagements* (the Framework) diminishes the potential value of the proposed standard to the public sector. Its value could be greatly enhanced if it was specifically prepared for public sector auditors with more consideration of better practice in reporting to Parliament and less consideration for consistency of reporting with the Framework.

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and

**Paragraph 45 - Assurance Report Content (Refer Comments and Disposition Paper Agenda Item 5.1 –Q5 pg 8)**

ACAG notes that the minimum requirements to be included in a performance audit report as prescribed in paragraph 45 contain some elements not currently presented in practice. As such, the inclusion of all of these elements would require significant changes to existing performance audit reporting custom.

**AUASB Technical Group (ATG) Comments on Disposition**

This area was discussed at length with the PAG and the following base elements were noted as ones not currently reported on by Auditor-Generals: 45(d) Responsible Parties responsibility statement, 45(e) Assurance Practitioners responsibility statement and 45(g)(i) application of ASQC1 and were not considered by the PAG to add to the substance of the performance engagement report. Currently 44(d) and 44(e) are required under para 83(g) of extant ASAE 3500. Paragraph 44(g)(i) in relation to ASQC 1 only came into effect in October 2009 (post issuance of extant ASAE 3500) as part of the AUASB's Clarity project. By removing these base elements of the performance engagement report allows the Auditor-Generals' who primarily undertake performance engagements more flexibility in their reporting style and lends itself to the report being presented in plain English assisting the user/reader of the report and is consistent with current practice in Australia. These recommended changes also support ACAG's overall comment regarding this ASAE being specifically developed for public sector auditors with consideration of better practice in reporting to Parliament.

**The Board to advise whether they agree with the proposed disposition on this matter?**

**3.2 Paragraph 34 – Understanding Internal Controls (Refer Comments and Disposition Paper Agenda Item 5.1 –Q5 pg 7)**

ACAG notes the potential for inconsistent application of paragraph 34 of the proposed standard. This is due in part to this paragraph introducing a new mandatory requirement to understand internal control by evaluating the design and implementation of controls. This may be construed as implying a level of testing of the relevant controls, in addition to obtaining an understanding, however it is not clear whether this is the intention and, if so, what the nature, timing and extent of procedures should be.

ASAE 3000 provides no greater clarity in this regard. By way of contrast, ASA 315, paragraph A74 clarifies the types of procedures used in gaining an understanding of the design and implementation of financial reporting controls.

Also, the paragraph is not clear about the circumstances when internal controls will be considered relevant to the evaluation of an activity's performance.

ACAG notes the development of the recent Canadian Standard on Assurance Engagements CSAE 3001 *Direct Engagements* considered this matter. The Basis for Conclusions states "...the AASB decided to word paragraph 52R of CSAE 3001 so the focus is on controls pertinent to the objectives of the engagement and that work on evaluating the design and implementation of controls would be undertaken when relevant to that engagement." Additional explanatory material paragraphs were added to CSAE 3001. ACAG suggests a similar approach for the proposed standard.

**AUASB Technical Group (ATG) Comments on Disposition**

The assurance practitioner would need to apply their professional judgement as to when internal controls are considered relevant to the evaluation of an activity's performance. The circumstances of each performance engagement will be different and as such this would need to be considered on an engagement by engagement basis. The AUASB has reviewed the wording in para 52R of CSAE 3001 and are satisfied the overall requirement of understanding of internal control explicitly states only where relevant to the engagement. This is also the intention of para 34 of ASAE 3500 where we state 'internal controls the assurance practitioner considers are relevant to the evaluation.....'

The AUASB agrees the evaluation of the design of controls could be explicitly linked to the objective of the engagement and that performing of procedures on implementation of controls is only where relevant. The wording in para 34 has been changed to reflect this and is more in line with CSAE 3001.

Some additional application material has been added to para A36-A39 to reflect the type of work that may be undertaken on internal controls if relevant to the engagement and is drawn from CSAE 3001.

#### **The Board to advise whether they agree with the proposed disposition on this matter?**

#### 4. NOCLAR

Due to timing of the approval and completion of the NOCLAR changes which include conforming amendments to ASAE 3000 (reference changes and additional application material) no reference to these requirements in ASAE 3000 had been included in ED 01/17 ASAE 3500.

On quality assurance it was noted that reference to NOCLAR should be included in ASAE 3500 for completeness.

Paragraph 34 has now been added to ASAE 3500 to refer to the requirements on NOCLAR in ASAE 3000 (May 2017) as follows:

"The assurance practitioner shall implement non-compliance with laws and regulations procedures as required by ASAE 3000." This includes a footnote to paragraph 45 of ASAE 3000.

#### ***To be completed***

1. Basis for conclusions to be approved by Technical Director and Chair subject to final approval of the final revised ASAE 3500 by the AUASB; and
2. Internal sign off process.

#### ***Part B – NZAuASB***

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

#### **AUASB Technical Group Recommendation**

The AUASB Technical Group recommends the final revised ASAE 3500 be approved subject to completion of the Basis for Conclusions and the internal sign off process.

## **Material Presented**

Agenda Item 5	AUASB Board Meeting Summary Paper
Agenda Item 5.1	AUASB Comments Received and Proposed Disposition Paper
Agenda Item 5.2	Revised Final ASAE 3500 <i>Performance Engagements</i> (marked up)
Agenda Item 5.3	Ernst & Young (EY)
Agenda Item 5.4	Australasian Council of Auditors-General (ACAG)
Agenda Item 5.5	CPA Australia (CPA)

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## **Action Required**

<b>No.</b>	<b>Action Item</b>	<b>Deliverable</b>	<b>Responsibility</b>	<b>Due Date</b>	<b>Status</b>
1.	AUASB to consider comments received and proposed disposition paper and final revised ASAE 3500 for approval.	Detailed comments on proposed disposition paper and revised ASAE 3500.	AUASB	12 September 2017	