



21 July 2017

Professor Roger Simnett AO
Chair
Auditing and Assurance Standards Board
PO Box 204
Collins St West Victoria 8007
AUSTRALIA

Dear Professor Simnett

**AUASB Exposure Draft 01/17 Proposed Standard on Assurance Engagements ASAE
3500 Performance Engagements**

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on the above exposure draft. The views expressed in this submission represent those of all Australian members of ACAG.

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.

Putting aside that issue, overall, ACAG supports the proposed standard. However, we have identified some areas that could be improved or refined to help with its practical application.

ACAG appreciates the opportunity to respond and trusts that you find our comments useful.

Yours sincerely

Andrew Greaves
Chairman
ACAG Financial Reporting and Auditing Committee

General Matters

ACAG notes that the proposed standard does not acknowledge the common Australian practice of establishing an overall audit objective at the commencement of a performance engagement.

This conceptually is distinct from the general engagement objective referred to in paragraph 16, and may differ from the program or entity level objectives referred to in paragraph 17(g).

The formulation of a specific audit objective is an important early stage of audit planning, particularly for a direct engagement, as it informs the identification, selection or development of criteria relevant to the evaluation of the performance of an activity with respect to economy, efficiency and effectiveness.

The existing standard acknowledges the important role of the audit objective in planning the engagement (paragraph 32) and reporting on the audit (paragraph 82), and ACAG recommends the retention of the intent and wording of these requirements.

While the proposed standard does not prevent the setting of an audit objective, ACAG would prefer that it recognised the setting of objectives and concluding on objectives as essential steps in conducting a performance engagement.

Responses to Request for Comments

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?

ACAG makes no comment on this matter.

2. Are there any references to relevant laws and regulations that have been omitted?

ACAG makes no comment on this matter.

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?

ACAG is not aware of any such laws and regulations.

4. What, if any, are the additional significant costs to/benefits for assurance practitioners and the public sector arising from compliance with the main changes to the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of performance engagements?

ACAG considers that the main changes in the proposed standard are broadly consistent with current practice so ACAG does not anticipate that there will be any significant costs arising from compliance with the main changes to the requirements of the proposed standard.

5. Will there be any difficulties in implementing the requirements?

5.1 Paragraph 34 – Understanding internal controls

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.

5.2 Paragraph 45 – Assurance report content

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.

In addition, ACAG recommends clarification as to the appropriate level of criteria required to be reported in accordance with subparagraph 45(c)(iii). In performance audit practice it is common for multiple levels of criteria to be developed, which may be described as 'lines of enquiry', 'criteria' or 'sub-criteria'. Inconsistency in reporting is likely to result without further clarification as to which levels of criteria should be reported as a minimum.

5.3 Paragraph 15 – Relationship with other standards

ACAG considers that the interpretation and application of paragraph 15 may be difficult because the table in Appendix 4 appears to be incomplete and/or confusing. The intention of the AUASB for the inclusion of this appendix is not clear. Specifically, under Subject Matters 2 and 3, ACAG considers ASAE 3500 ought to be ticked given that the table is describing subject matter evaluations that could be performance engagements. With particular reference to Subject Matter 3 which refers to the design and operating effectiveness of controls, the table also may cause confusion because paragraph 34 of the proposed standard requires an understanding of internal controls that includes an evaluation of the design and implementation of relevant controls.

6. Are there any other significant public interest matters that constituents wish to raise?

ACAG is not aware of any other significant public interest matters.

Other comments

ACAG recommends clarification of intent, or the correction of an apparent error, in paragraph 40 of the proposed standard. The paragraph states ‘...the assurance practitioner shall consider the effect on the activity’s performance of events that become known to the assurance practitioner **after the date** of the assurance report...’ [emphasis added].

For consistency with ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, the existing standard on performance engagements and the *Framework for Assurance Engagements*, ACAG considers that the paragraph ought to read ‘...the assurance practitioner shall consider the effect on the activity’s performance of events that become known to the assurance practitioner **up to the date** of the assurance report...’ [emphasis added].

ACAG also considers that guidance similar to that provided in paragraph A50 of ASAE 3100 *Compliance Engagements* and paragraph A123 of ASAE 3150 *Assurance Engagements on Controls* is necessary to assist assurance practitioners to respond appropriately to facts that become known to them after the date of the assurance report.

ACAG has noted some opportunities to improve the language used in the standard. Improvements in these areas would provide greater clarity to the users of the standard and promote consistent application. In particular, ACAG notes:

- The Commonwealth Auditor-General is described in the proposed standard as both the ‘National’ and the ‘Federal’ Auditor-General. ACAG considers ‘Commonwealth’ to be the most appropriate term in the context of the Australian jurisdiction.
- The term ‘Auditor-General’ is inconsistently hyphenated in the proposed standard. The consistent use of ‘Auditor-General’ is preferred.
- There is inconsistent description of the engagement as either a ‘performance engagement’ or simply an ‘engagement’.
- The relative pronoun ‘which’ is used where ‘that’ would be more commonly applied to reflect the apparent intention of the AUASB that the clause that follows is essential to the interpretation of the requirement.