

Auditing Standard

AUS 806
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Performance Auditing

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Auditing Standards contain the basic principles and essential procedures identified in bold-type (black lettering) which are mandatory, together with related guidance. For further information about the responsibility of members for compliance with AUSs refer Miscellaneous Professional Statement APS 1.1 "Conformity with Auditing Standards".

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AUDITING STANDARD
AUS 806 “PERFORMANCE AUDITING”

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Introduction

- .01 The purpose of this Auditing Standard (AUS) is to establish standards and provide guidance on the objective and general principles governing a performance audit. This AUS applies to all performance audits whether:
- (a) the audit report is published or not; and
 - (b) the audit is undertaken:
 - (i) in the private or public sector;
 - (ii) by an internal or external auditor; or
 - (iii) on a one-off project basis or as part of an ongoing engagement.

This AUS should also be applied, adapted as necessary, to audit related services regarding performance.

- .02 “Performance audit” means an audit of all or a part of an entity’s or entities’ activities to assess economy and/or efficiency and/or effectiveness. It includes any audit directed to:
- (a) the adequacy of an internal control structure or specific internal controls, including those intended to safeguard assets and to ensure due regard for economy, efficiency and effectiveness;
 - (b) the extent to which resources have been managed economically and efficiently; and
 - (c) the extent to which activities have been effective.
- .03 “Economy” means the acquisition of the appropriate quality and quantity of financial, human, physical and information resources at the appropriate times and at the lowest cost.
- .04 “Efficiency” means the use of financial, human, physical and information resources such that output is maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.

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- .05 “Effectiveness” means the achievement of the objectives or other intended effects of activities.
- .06 It is important to note that the responsibility for an entity’s operations and procedures rests with management, who are accountable for the economy, efficiency and effectiveness of operations. A performance audit does not relieve management of its responsibilities.

Objective of a Performance Audit

- .07 *The objective of a performance audit is to enable the auditor to express an opinion whether, in all material respects, all or part of an entity’s or entities’ activities have been carried out economically and/or efficiently and/or effectively. In the case of a direct reporting audit, the objective also includes the provision of relevant and reliable information about performance.*

General Principles of a Performance Audit

- .08 *The auditor should comply with the ethical requirements of CPA Australia and The Institute of Chartered Accountants in Australia.* Ethical principles governing the auditor’s professional responsibilities include:
- (a) independence;
 - (b) integrity;
 - (c) objectivity;
 - (d) professional competence and due care;
 - (e) confidentiality;
 - (f) professional behaviour; and
 - (g) technical standards.
- .09 *The auditor should conduct a performance audit in accordance with Australian Auditing Standards applicable to performance audits.* These contain the basic principles and essential procedures, together with related guidance, to be applied in a performance audit. Australian Auditing Standards applicable to performance audits comprise:

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- (a) those AUSs that specifically refer to performance auditing; and
- (b) all other AUSs adapted as necessary.

Where a performance audit is established by legislation, the practices adopted in applying the basic principles and essential procedures are to be determined in the context of the legislative mandate.

- .10 ***The auditor should adopt an attitude of professional scepticism throughout the audit recognising that circumstances may exist which could cause the information relating to performance to be materially misstated.***

Reasonable Assurance

- .11 A performance audit in accordance with AUSs provides reasonable assurance as to whether the information relating to performance is free from material misstatement. Reasonable assurance is a concept relating to the accumulation of audit evidence necessary for the auditor to conclude whether there are any material misstatements in the information relating to performance. In the context of direct reporting, reasonable assurance relates to the facts, findings and conclusions provided and the opinion expressed by the auditor about performance. Reasonable assurance relates to the whole audit process.
- .12 What is “reasonable” in any given situation will depend on the facts of that situation and is to be determined by what evidence could reasonably be expected to be gathered and what conclusions could reasonably be expected to be drawn in the particular situation.
- .13 The work undertaken by the auditor is permeated by judgement, in particular regarding:
- (a) the gathering of audit evidence, for example in deciding the nature, timing and extent of audit procedures; and
 - (b) the drawing of conclusions based on the audit evidence gathered.
- .14 In addition, there are inherent limitations on any audit as to the extent to which audit risk can reasonably be expected to be reduced. Some of these limitations permeate all conclusions drawn by the auditor. Such limitations include the use of testing, the inherent limitations of any internal control structure, the possibility of

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collusion and the fact that most audit evidence is persuasive rather than conclusive. Other limitations may affect the persuasiveness of audit evidence available to draw conclusions on a particular aspect of performance.

Terms of the Engagement

- .15 ***The auditor and the entity should agree on the terms of the engagement.*** The agreed terms would ordinarily be included in a contract or recorded in an audit engagement letter or other suitable form. In agreeing on the terms of the engagement for a performance audit, particular attention needs to be paid to:
- (a) the audit objectives;
 - (b) the audit scope; and
 - (c) the criteria against which performance is to be assessed.

Where there is a legislated mandate that gives an auditor the discretion to determine the activity to be audited and the scope of the audit, the auditor's notification of the legislative mandate, scope and focus of the proposed audit to the auditee would meet the requirements in this paragraph.

- .16 When a performance audit is undertaken under legislation and the auditor and the entity are unable to agree on the terms of the engagement, it may be appropriate for the auditor to include a qualification in the audit report on the basis of a scope limitation, for example where access to certain activities is restricted.
- .17 It is in the interest of both the entity and the auditor that the auditor sends an engagement letter, preferably before the commencement of the engagement, to help in avoiding misunderstandings with respect to the engagement. Even where the objective and scope of the audit and the auditor's obligations are established by law, the auditor advises the auditee, at the commencement of the audit, of the objectives and scope of the audit. An audit engagement letter cannot reduce obligations imposed by law.

Planning

- .18 ***The auditor should plan the audit work so that the audit will be performed in an effective manner.*** Planning consists of developing a general strategy and a detailed approach for the expected nature, timing and extent of the audit. The auditor plans to perform the audit

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in an efficient and timely manner. AUS 808 "Planning Performance Audits" deals further with planning, and includes consideration of:

- (a) obtaining knowledge of the business;
- (b) establishing or assessing the audit objectives and scope;
- (c) planning to use the work of a specialist or expert; and
- (d) determining the suitability of criteria.

Work Performed by Assistants

- .19 ***When work is delegated to members of the audit team, the auditor should carefully direct, supervise and review the work delegated.***
- .20 When multi-disciplinary audit teams are used, adequate direction, supervision and review is particularly important so that the team members' different perspectives, experience and specialties are appropriately used in the audit. It is important that all team members understand the objectives of the particular audit and the terms of reference of work assigned to them. Adequate direction, supervision and review is important so that the work of all team members is executed properly and is in compliance with applicable AUSs. Auditors need to have an adequate appreciation of the methods, assumptions and source data used by all team members, particularly specialists, to be able to assess the reasonableness and significance of their findings.

Using the Work of an Expert

- .21 ***When using the work performed by an expert, the auditor should obtain sufficient appropriate audit evidence that such work is adequate for the purposes of the audit.***
- .22 An expert is a person or firm possessing special skill, knowledge and experience in a particular field other than accounting and auditing. Because of the diverse range of activities subject to performance auditing, the auditor may often need to obtain, in conjunction with the entity or independently, audit evidence in the form of reports, opinions, valuations and statements of an expert. Although the auditor may use the work of an expert as audit evidence, the auditor retains full responsibility for the conclusions in the audit report. AUS 808 "Planning Performance Audits" deals further with planning to use the work of a specialist or expert.

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Criteria

- .23 ***The auditor should be satisfied that suitable criteria have been identified to enable the auditor to assess the activities subject to audit.***
- .24 The provision of an audit requires that each matter being addressed is capable of evaluation against suitable criteria. Criteria are reasonable and attainable standards of performance against which the extent of economy, efficiency and effectiveness of activities can be assessed.
- .25 The auditor has a responsibility to determine whether identified criteria are suitable. Suitable criteria are those that are relevant to the matters being audited and appropriate to the circumstances. AUS 808 "Planning Performance Audits" deals further with determining the suitability of criteria. If the auditor believes the identified criteria to be unsuitable, the auditor would either:
- (a) not perform the audit, as would be the case for an attest audit under a contractual mandate; or
 - (b) express a qualified opinion, as would be the case where the auditor is compelled to perform an attest audit under a legislative mandate.

Audit Evidence

- .26 ***The auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit report.*** Sufficiency is the measure of quantity of audit evidence, and appropriateness is the measure of quality of audit evidence, its relevance to particular criteria and its reliability.
- .27 Evidence gathered during a performance audit may be predominantly qualitative in nature and requires extensive use of professional judgement. Accordingly the auditor would ordinarily seek corroborating evidence from different sources or of a different nature in making assessments and forming conclusions.

Documentation

- .28 ***The auditor should document matters that are important in providing evidence to support audit conclusions and evidence that the audit was carried out in accordance with Australian Auditing Standards applicable to performance audits.***

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Audit Conclusions and Reporting

- .29 ***The auditor should review and assess the conclusions drawn from the audit evidence obtained as the basis for preparing the audit report.*** Performance audit reports vary between jurisdictions and audits depending on differences in audit mandates, and in the scope and complexity of the particular audit and its findings.
- .30 The performance audit mandate, whether established by legislation, by directive from the governing body or by contract, ordinarily specifies the minimum audit and reporting requirements of the performance audit. The audit mandate may require or enable the auditor to report in either the attest or direct reporting form as identified in AUS 106 "Explanatory Framework for Standards on Audit and Audit Related Services"
- .31 In an attest audit, the auditor attests to assertions prepared by management to demonstrate management's regard for economy and/or efficiency and/or effectiveness. In a direct reporting audit, the auditor prepares a report describing the performance of management and/or other related, affected or involved parties, and presents the facts, findings and an opinion indicating the extent to which the relevant party has performed economically and/or efficiently and/or effectively in accordance with the criteria established for the audit. The auditor's opinion in a direct reporting audit may consist of a series of conclusions about different aspects of the matters subject to audit where this is appropriate in the context of the particular engagement.
- .32 ***A performance audit report should include, but not necessarily be limited to, the following:***
- (a) ***the title;***
 - (b) ***the addressee;***
 - (c) ***a statement that the audit has been performed in accordance with Australian Auditing Standards applicable to performance audits and accordingly included such tests and other procedures as the auditor considered necessary in the circumstances;***
 - (d) ***in rare and exceptional circumstances, when a departure from a basic principle or essential procedure may be necessary, as indicated in Miscellaneous Professional Statement APS 1.1 "Conformity with Auditing Standards", the statement required under paragraph (c)***

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should provide details of the particular basic principle(s) or essential procedure(s) that has been departed from together with the justification for the departure. As indicated in APS 1.1, this statement is not required where the basic principle or essential procedure relates to a matter that is not material or where the Auditing Standard contains an exceptional circumstance departure provision in the black-lettering. (For example, refer AUS 504.02 "Confirmation of Receivables".);

- (e) a description of the objectives and scope of the audit, including any limitations thereon;*
- (f) an identification of the criteria in accordance with which the auditor's opinion has been formulated;*
- (g) in the case of a direct reporting audit, a description of the facts and findings that form the basis for the auditor's opinion ;*
- (h) an expression of the auditor's opinion related to the criteria upon which it is based;*
- (i) the auditor's signature;*
- (j) the auditor's address; and*
- (k) the date of the audit report.*

.33 It is important that the report describes the objectives and scope of the audit so that readers can understand and properly interpret the results. The audit objectives are based on the audit mandate and set out clearly the purposes of the particular audit. The scope of the audit is described by identifying the entity or part thereof subject to audit, identifying the matters examined and describing the time period covered by the audit. The auditor needs to give particular attention to clearly describing the scope and objectives of the audit where the purpose of the audit or the nature of the performance information is highly specialised or the audit opinion or performance information could mislead users if taken out of context. Similarly, the auditor would consider whether there is any express restriction on the distribution of the audit report or on those entitled to rely on it. If so, this would be mentioned in the audit report so as to limit its use to the purpose for which it was intended.

.34 Any limitations on the scope of the auditor's work and the reasons therefor should be described in the audit report. A scope limitation

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occurs, for example, when the auditor is unable to audit key organisational units or systems or to perform necessary audit procedures due to factors beyond the auditor's control. The scope of the audit can also be limited by the inability to identify or agree on suitable criteria. The auditor would consider whether it is appropriate to comment in the report on the implications of the lack of suitable criteria for the activity being audited.

- .35 A direct reporting audit report would describe relevant facts and findings sufficiently to allow readers to understand the basis upon which the auditors' opinion has been formed. Audit findings arise from an examination of the underlying facts, comparisons with suitable criteria and the auditor's analysis of differences between what is observed and the audit criteria, including where applicable the causes and effects of the differences.
- .36 ***The auditor's opinion should be either:***
- (a) ***unqualified¹; or***
 - (b) ***qualified¹.***
- .37 ***In an attest audit, a qualified opinion should be expressed as:***
- (a) ***an 'except for' opinion;***
 - (b) ***an adverse opinion; or***
 - (c) ***an inability to form an opinion.***
- .38 ***In the case of a direct reporting audit, the wording used for a qualified opinion should ensure that the nature of the auditor's qualification is clearly conveyed to the report reader.*** The form of any qualification depends on the specific engagement circumstances and the facts, findings and conclusions reported in accordance with paragraphs AUS 806.32, .32(g) and .35.

¹ An audit report that contains either an unqualified or a qualified opinion may, in certain circumstances, include an emphasis of matter section.

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Qualifications

- .39 *In the case of an attest audit, the auditor should express a qualified opinion when any of the following circumstances exist and, in the auditor's judgement, the effects of the matter are or are likely to be material:*
- (a) a disagreement with management regarding the written assertion or assertions;*
 - (b) unsuitable criteria have been used as the basis for the written assertion or assertions; or*
 - (c) a limitation on the scope of the audit.*

Recommendations and Management Responses

- .40 Performance audit reports for both attest and direct reporting audits may also incorporate audit recommendations as well as management's responses with respect to the matters reported. The auditor needs to ensure that when making recommendations the responsibility for the implementation of those recommendations does not, and is not seen to, rest with the auditor.

Operative Date

- .41 This AUS, which incorporates amendments made by AUS/AGS Omnibus 3 "Miscellaneous Amendments to AUSs and AGSs", is operative as at from July 2002. This version of AUS 806 supersedes AUS 806 "Performance Auditing", as revised in February 1999.

Compatibility with International Standards on Auditing

- .42 There is no corresponding International Standard on Performance Auditing.