



# Feedback Statement

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**Project Title: Post Implementation Review of ASAE 3500 *Performance Engagements***

## Purpose of this Feedback Statement

1. This Feedback Statement summarises the key themes raised by stakeholders in response to the AUASB's post-implementation review (PIR) of its [Standard on Assurance Engagements ASAE 3500 Performance Engagements](#) (ASAE 3500).
2. The AUASB will use evidence obtained from conducting the PIR to identify potential issues that may exist in applying ASAE 3500 in practice, and to determine what actions need to be undertaken by the AUASB to address such issues.

## Background

3. ASAE 3500 is an Australian Standard with no IAASB equivalent. It is issued by the AUASB under the AUASB's *Framework for Assurance Engagements*, which is consistent with the IAASB's equivalent Framework. The Framework, which defines and describes the elements and objectives of an assurance engagement, provides the context for understanding ASAE 3500.
4. ASAE 3500 was revised and reissued by the AUASB in October 2017 (operative for assurance engagements commencing on or after 1 January 2018).<sup>1</sup>
5. The AUASB's [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#) (Due Process Framework) requires the AUASB to perform a PIR on all new domestic standards/major revisions to standards to evaluate the effectiveness and efficiency of its implementation.
6. A PIR is usually performed after the new/revised requirements have been applied for two to three years, to allow sufficient time for the standard to be used and tested in practice. The ASAE 3500 PIR was delayed due to the Pandemic and the AUASB's focus on developing AUASB Guidance Statement GS 023 *Special Considerations — Public Sector Engagements*.

## Objective of PIR

7. The objective of the ASAE 3500 PIR is to:
  - (a) gather information about the application of ASAE 3500 in practice; and
  - (b) evaluate the overall effectiveness and efficiency of the Standard in meeting its original objectives, and whether the Standard remains appropriate.

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<sup>1</sup> ASAE 3500 (October 2017) was updated in December 2022 to reflect conforming and consequential amendments in response to the revised suite of Quality Management Standards that became effective for financial reporting periods commencing on or after 15 December 2022.



## Scope / Approach

8. A PIR is not intended to be a reconsideration of the original Standard. Instead, it acknowledges that consultation and due process during the development of a pronouncement are not a substitute for the practical application of new or revised requirements in practice. The focus of the PIR is therefore on practical application of ASAE 3500 to identify:
  - unexpected issues with implementation/application;
  - divergence in practice; and
  - new or emerging practices not contemplated when the Standard was developed but that may be increasing in prevalence.
9. In accordance with the AUASB's PIR methodology, the PIR process comprises the following steps:
  - (a) gather evidence to identify issues with implementation and application;
  - (b) collate and analyse stakeholder feedback;
  - (c) evaluate the overall effectiveness and efficiency of the Standard in meeting its original objectives, including whether the Standard and its requirements remain appropriate;
  - (d) present the preliminary PIR findings and recommendations to the AUASB; and
  - (e) publish the PIR findings in the form of an *AUASB Feedback Statement*.

## Outreach

10. As ASAE 3500 is primarily used in conducting performance engagements in the public sector, AUASB technical staff considered **direct targeted consultation** with key stakeholders and stakeholder representative groups would prove more efficient and effective in soliciting relevant feedback than undertaking broader consultation with the public.
11. Stakeholders and stakeholder groups included in the targeted outreach comprised:
  - **Audit Offices of Commonwealth, State and Territory Auditors-General (Audit Offices)** that undertake performance engagements in conjunction with financial report assurance or as part of their mandates.
  - **ACAG Heads of Performance Audit (HoPA)** – a sub-committee of the Australasian Council of Auditors General (ACAG). HoPA provides an avenue through which the heads of performance audit (i.e. ACAG representatives who have responsibility for the methodology and delivery of performance audit engagements in each of their Audit Offices) can establish relationships and come together to share, collaborate and leverage ideas and practices. The Committee further provides an opportunity to discuss and exchange intelligence about the practical challenges and solutions for managing a performance audit business.
  - **ACAG Auditing Standards Committee (ASC)** – a sub-committee of ACAG. The ASC provides ACAG with advice on emerging issues that impact audit quality in both financial and performance audits and developments in auditing and assurance standards.
12. Targeted stakeholders were invited to provide feedback in response to nine key [PIR Questions](#) concerning adoption and application of ASAE 3500 in practice.



13. Concurrently with the formal targeted consultation, AUASB Technical Staff also undertook **limited public consultation** activities to solicit feedback from other interested parties, including:
- **Assurance practitioners through the Professional Accounting Bodies** – CA ANZ, CPA Australia and IPA.
  - **Internal auditors through the Institute of Internal Auditors (IIA-Australia).**
- Outreach activities included:
- (a) Posting a [news item](#) to the AUASB website (March 2023) and periodic [newsletter](#) (April 2023) alerting stakeholders to the PIR and asking for feedback. The news items included links to the [PIR Project Plan](#) and nine [PIR Questions](#) available on the AUASB website. The PIR was also promoted on LinkedIn and Twitter.
- (b) Posting news items about the PIR in the March/April 2023 newsletters/technical updates of the Professional Accounting Bodies (CA ANZ, CPA Australia and IPA) and the Institute of Internal Auditors (IIA-Australia), with relevant links to the AUASB website.
14. On 18 April 2023, AUASB Technical Staff met with HoPA in Canberra to discuss the PIR and to gather feedback direct. AUASB Technical Staff also attended the 2023 biennial *International Meeting of Performance Audit Critical Thinkers (IMPACT)* Conference in Canberra on 19-20 April 2023 to create awareness of the PIR and gather further feedback from performance assurance practitioners on an informal basis. The 2023 conference was co-hosted by ACAG, the Australian National Audit Office (ANAO) and ACT Audit Office.
15. Finally, AUASB Technical Staff performed a search for information that may be publicly available to:
- (a) determine the extent to which ASAE 3500 has been adopted in Australia; and
- (b) identify potential issues concerning ASAE 3500 and its application in practice.

## Overview of Respondents

16. In addition to the direct feedback from HoPA and informal feedback from performance assurance practitioners attending the IMPACT conference, the AUASB received eight written responses from:
- Audit Offices:**
- Australian National Audit Office (ANAO)
  - Audit Office of NSW
  - Auditor-General's Department of South Australia
  - Queensland Audit Office
  - Tasmanian Audit Office
  - Victorian Auditor-General's Office
  - Office of the Auditor-General Western Australia
- Other:**
- Joint submission by CA ANZ and CPA Australia (based primarily on feedback received from public sector auditors).



## Key Findings from the PIR

### Summary of key messages

#### 17. Support for the Standard's reporting requirements to be revised

- Feedback indicated divergent practices in applying the Standard's reporting requirements in the different jurisdictions in Australia.
- The ANAO commented that it considered some of the base elements required to be included as a minimum in the performance assurance report<sup>2</sup> to be less relevant to users than matters not required as minimum content, such as findings, recommendations and data sources. The ANAO in its Auditing Standards (which are also legislative instruments like the AUASB's Auditing Standards) has replaced paragraph 45 of ASAE 3500 with the reporting requirements of INTOSAI<sup>3</sup> ISSAI 3000<sup>4</sup>. The ANAO considers these reporting requirements are consistent with the current practice of the ANAO in reporting conclusions, findings and recommendations in performance audit reports. ISSAI 3000 reporting requirements allow for the audit conclusion to include and be presented together with other information that highlights both positive and negative aspects of performance. The ANAO considers this is consistent with the ANAO's purpose of improving public sector performance and supporting accountability and transparency in the Australian government sector through independent reporting to the Parliament, the Executive and the public (refer also to paragraph 21 of this Feedback Statement).
- Several respondents expressed a need for further guidance and illustrative example assurance reports and, in particular, examples of wording to use in drafting various types of assurance conclusions (especially in circumstances where there are material variations from performance against only some of the criteria).

#### 18. Support for the inclusion of specific requirements and application material for limited assurance performance engagements

- All respondents identified a need for the Standard to be updated to include specific requirements and application material for limited assurance performance engagements. It was noted this may require a review of the ASAE 3500 objectives<sup>5</sup>, which focus solely on reasonable assurance engagements.
- Most respondents expressed a need for further application guidance to differentiate between the procedures/evidence for limited and reasonable assurance engagements in the context of conducting performance audit engagements (direct engagements), including examples to demonstrate key principles.
- Several respondents requested further guidance on how limited assurance conclusions may be expressed, including illustrative examples.

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<sup>2</sup> ASAE 3500, paragraph 45.

<sup>3</sup> International Organisation of Supreme Audit Institutions

<sup>4</sup> International Standards of Supreme Audit Institutions (ISSAI) 3000 *Performance Audit Standard*, paragraphs 116, 122, 124 and 126.

<sup>5</sup> ASAE 3500, paragraph 15.



19. **Support for including further guidance on setting and assessing materiality<sup>6</sup>**

- Most respondents commented that the requirements related to materiality included in ASAE 3500 are challenging for assurance practitioners to effectively apply to performance audits in the public sector and that the requirements are likely interpreted differently by different practitioners in practice.
- The majority of respondents identified a need for greater guidance on setting and assessing materiality in practice, and to include performance audit specific examples. Various respondents noted that inclusion of such additional guidance in the standard (or by way of an Appendix to the Standard) is particularly important as many performance assurance practitioners do not come from an accounting or auditing background and, as such, may lack awareness of other relevant auditing and/or assurance standards. Several respondents considered INTOSAI performance audit resources provided useful guidance in this regard.

20. **Support for existing requirements and application material related to the identification and assessment of engagement risk<sup>7</sup> to be revised**

- Most respondents believed the current requirements related to the identification and assessment of engagement risk could be clearer. The majority of respondents also found the application guidance in the Standard to be minimal and requested the AUASB consider redrafting relevant paragraphs and including further application guidance, drawing from relevant AUASB Auditing Standards such as ASA 315<sup>8</sup> and/or relevant INTOSAI performance auditing materials which respondents considered helpful.
- Several respondents found the language used in the section on *Understanding the Activity and Other Performance Engagement Circumstances* to be confusing.
  - Many respondents raised specific issues with application of paragraph 33 of the Standard, noting the potential for inconsistent application in practice. This paragraph includes a requirement for the assurance practitioner to understand the design of internal controls the practitioner considers relevant to evaluate an entity's performance against identified criteria and, if relevant, to perform procedures to assess their implementation. Respondents commented that the intent of the requirement was not clear and that further application guidance, including practical examples, would be useful to clarify the circumstances when internal controls could be considered relevant in the context of a performance audit in the public sector, and further guidance on what the nature, timing and extent of procedures (testing of controls) should be.
  - The ANAO noted it has omitted paragraph 33 (see previous point) and paragraph 34 (implementing non-compliance with laws and regulations procedures) of ASAE 3500 from the ANAO Auditing Standards (which are also legislative instruments like the AUASB's Auditing Standards) on the basis that these paragraphs contain requirements for all audits that are not consistent with the performance auditing approach of Supreme Audit Institutions. The ANAO considers inclusion of these requirements would extend the scope of *all audits* to include consideration of internal controls relevant to the subject matter of the audit as well as non-compliance with laws and regulations, irrespective of whether these procedures are required, within the scope of the audit, to achieve the objective of the audit. The ANAO noted that, where not required in the scope of the audit, these additional procedures would not add value to the audit process nor result in information that would be considered of value to users of the reports.

<sup>6</sup> ASAE 3500, paragraphs 29-31 and related application and other explanatory material.

<sup>7</sup> ASAE 3500, paragraphs 32-35 and related application and other explanatory material.

<sup>8</sup> ASA 315 *Identifying and Assessing the Risks of Material Misstatement*



21. **Support for the objectives of a performance audit<sup>9</sup> to be updated to:**

(a) **Consider additional performance audit assertions beyond the ‘3 Es’**

- Several respondents argued that the objective of a performance engagement, that is, to evaluate the performance of an activity, with respect to economy, efficiency and/or effectiveness against the identified criteria, does not incorporate the broader aim of performance auditing in the public sector of also considering the important principles of equity (whether government entities provide services to all citizens in an equitable manner, without discriminating against a particular group) and probity (such as honesty, accountability and transparency).
- The ANAO noted that in the revised ANAO Auditing Standards (which are legislative instruments like the AUASB’s Auditing Standards), which took effect on 14 April 2023, all ASAE 3500 references to ‘economy, efficiency and/or effectiveness’ have been replaced with ‘economy, efficiency, effectiveness *and/or ethics*’. This is to reflect that the ANAO assesses all aspects of the proper use of resources by the Commonwealth and Commonwealth entities, with ‘proper’ meaning efficient, effective, economical *and ethical* as defined under the *Public Governance, Performance and Accountability Act 2013*.

(b) **In addition to evaluating performance, also identifying and recommending opportunities for improvement**

- Some respondents argued that the INTOSAI definition and objective of a performance audit set out in ISSAI 300<sup>10</sup> aligned more closely with their Audit Office’s vision for performance audits to provide new information, analysis or insights and, where appropriate, identify and recommend opportunities for improvement.
- One respondent suggested the AUASB undertake research whether the recommendations arising from the performance engagement should be a mandatory component of the assurance report.

22. **Other comments:**

- Respondents all expressed the view that the Standard would be easier to understand and apply if written in ‘plain English’ format (similar to INTOSAI Standards) as many performance assurance practitioners do not necessarily have an accounting or financial auditing background.
- Some respondents considered further application and explanatory material and/or examples would be useful to assist practitioners to apply the requirements relating to identifying, selecting or developing suitable criteria/lines of enquiry, and how this should be documented.

## Recommendation/Way Forward —ASAE 3500 PIR

23. The AUASB at its June 2023 meeting considered and agreed with a proposal by AUASB Technical Staff recommending that the AUASB add a new project to its work plan to make narrow scope amendments<sup>11</sup> to ASAE 3500 to address the key findings from the PIR.
24. The revision is considered narrow in scope as it will be targeted at the specific issues identified by stakeholders that participated in the PIR, rather than undertaking a full-scale revision of the Standard in its entirety which is not considered necessary at this point in time.
25. Staff will commence work on the project in the second half of 2023.

<sup>9</sup> ASAE 3500, paragraphs 16(n) and 16(o).

<sup>10</sup> International Standards of Supreme Audit Institutions (ISSAI) 300 *Performance Audit Principles*, paragraph 9.

<sup>11</sup> The AUASB has adopted a simplified due process for addressing changes to existing standards that are considered to be narrow in scope – refer to paragraphs 176-197 of the AUASB Due Process Framework.