

## BASIS FOR CONCLUSIONS

**AuG-50,**

### **Conducting a Performance Audit in the Public Sector in Accordance with CSAE 3001**

**August 2020**

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, ASSURANCE AND RELATED SERVICES GUIDELINE ([AuG 50, Conducting a Performance Audit in the Public Sector in Accordance with CSAE 3001](#)).

#### **Purpose of this Basis for Conclusions**

This Basis for Conclusions provides a brief summary of the AASB's objectives in issuing [AuG-50](#), the public exposure and approval steps for this project and how the Board dealt with significant matters arising from comments received in response to its Exposure Draft. This information is set out below.

#### **Background**

The AASB commenced a project in September 2015 to review the public sector auditing standards in the CPA Canada Handbook – Assurance. It formed a task force with seven members from various public sector organizations to conduct this review.

During this project, two initiatives were identified to update and replace the public sector auditing standards. The first initiative related to replacing AUDITING FOR COMPLIANCE WITH LEGISLATIVE AND RELATED AUTHORITIES IN THE PUBLIC SECTOR, Section PS 5300. This initiative concluded in September 2018 with the issuance of [AuG-49, Reporting on Compliance with Specified Authorities for Transactions Coming to the Auditor's Notice during the Audit of Financial Statements](#). The second initiative focused on the remaining extant standards related to value-for-money auditing. [AuG-50](#) was developed to replace these standards:

- INTRODUCTION TO ASSURANCE RECOMMENDATIONS THAT APPLY ONLY TO THE PUBLIC SECTOR, Section PS 5000;
- VALUE-FOR-MONEY AUDITING IN THE PUBLIC SECTOR, Section PS 5400;
- PLANNING VALUE-FOR-MONEY AUDITS IN THE PUBLIC SECTOR, Section PS 6410; and
- KNOWLEDGE OF THE AUDIT ENTITY IN PLANNING VALUE-FOR-MONEY AUDITS IN THE PUBLIC SECTOR, Section PS 6420.

In May 2019, the AASB issued the Exposure Draft of [AuG-50](#). Eleven written responses were received. The Board also consulted directly with public sector practitioners, resulting in eight more responses.

The AASB approved [AuG-50](#) in March 2020. The Auditing and Assurance Standards Oversight Council confirmed that the Board followed due process in developing AuG-50 and related consequential amendments prior to their issuance in the Handbook.

#### **AASB's Objectives in Developing AuG-50**

The AASB's objectives in developing [AuG-50](#) included determining whether there was still a need for the extant standards and, if so, redrafting existing relevant materials in the clarity format. During this project, the AASB noted that Canadian Standard on Assurance Engagements ([CSAE 3001, Direct Engagements](#)), which was issued in June 2015, is the relevant standard for conducting performance audits. The material in Sections PS 5000, PS 5400, PS 6410 and PS 6420 provides further context for conducting these engagements in the public sector. In reviewing the extant standards, the AASB determined the material in the extant standards needed to be updated to build upon the requirements of CSAE 3001 and explain how some requirements may need to be adapted or augmented when the engagement is performed by a public sector auditor.

[AuG-50](#) addresses the following public interest issues:

- Aligning the material in the extant standards with [CSAE 3001](#) and how practice has evolved in the sector; and
- Building consistency in how [CSAE 3001](#) is applied in the public sector to performance audits.

#### **Significant Matters**

##### *Definitions*

1. The Exposure Draft set out definitions for key terms used in the Guideline. Some respondents expressed concern with the definition of "legislative auditor", stating that it did not accurately reflect the role. Respondents suggested further detail be added to highlight that the legislative audit office is an independent entity created by legislation. These respondents

expressed the need for clarification that practitioners who are hired by government or a government entity are not legislative auditors.

2. The AASB revised the definition to clarify this term for the items respondents raised. The term applies to practitioners who derive authority through law or regulation, as well as those employed to assist them. The term does not apply to practitioners engaged by government or a government entity.
3. The AASB also decided to use the term "public sector auditor", rather than "legislative auditor", to be consistent with the term used in the Handbook, including in [CSAE 3001](#). As the term is already used in the Handbook, the legislative audit community is familiar with it. However, this term is not defined in the Handbook. Therefore, the AASB provided a definition for the use of this term in [AuG-50](#).

*Selection of the Audit Topic*

4. AuG-50 is based on the requirements of [CSAE 3001](#) and provides guidance to explain the public sector auditor context. One significant difference in a performance audit conducted by a public sector auditor is that the public sector auditor has the authority to select the topic that will be the focus of the audit. Section PS 6410 dealt with the selection of the audit topic. Respondents identified specific paragraphs in Section PS 6410 that should be retained and incorporated into [AuG-50](#) since CSAE 3001 does not include similar material.

5. The AASB agreed and has added guidance to [AuG-50](#) to address the selection of the audit topic of the performance audit.

*Understanding the Entity*

6. Section PS 6420 dealt with understanding the entity. Respondents to the Exposure Draft asked the AASB to consider retaining this material. These respondents highlighted that understanding the entity is critical in a performance audit since the practitioner develops suitable criteria against which the audit objectives will be assessed based on this understanding. No other standard in the Handbook provides practical guidance of how the practitioner can obtain an understanding of the entity.
7. The AASB agreed and incorporated material from Section PS 6420 into [Appendix 1](#) of AuG-50. Appendix 1 provides insights to the areas of the entity where gaining an understanding helps the practitioner conduct the performance audit.

*Preparing the Assurance Report*

8. The Exposure Draft of [AuG-50](#) included a decision tree to illustrate how the practitioner forms the assurance conclusion. Respondents raised concerns with this diagram due to the simplified manner in which the diagram expressed the assurance conclusion compared to the various assurance conclusions available to the practitioner. These respondents highlighted that a performance audit conclusion needs to be worded so that report users can understand the findings. They requested this diagram recognize that the practitioner may communicate other matters of importance (e.g., recommendations, criteria that were met, etc.).
9. To address these concerns, the AASB has included paragraphs 58-61 in AuG-50 to provide guidance for preparing the assurance report. Guidance in these paragraphs reinforces the flexibility provided in [CSAE 3001](#) to tailor the assurance report to the specific engagement circumstances. The guidance also highlights some of the different elements, such as criteria that are met and recommendations, which the practitioner may choose to include in the report. AuG-50 does not impact any of the reporting requirements set out in CSAE 3001. It clarifies how a practitioner may apply the requirements in communicating matters of importance.

*Effective Date*

10. The Exposure Draft explained that an Assurance and Related Services Guideline becomes effective on the date it is issued. The AASB does not anticipate any issues with implementation, since the material contained in [AuG-50](#) provides further guidance for how to apply [CSAE 3001](#) in a performance audit in the public sector. No concerns were raised by respondents related to the effective date.

*Withdrawal of Sections PS 5000, PS 5400, PS 6410 and PS 6420*

11. With the issuance of [AuG-50](#), Sections PS 5000, PS 5400, PS 6410 and PS 6420 are withdrawn. The Exposure Draft requested feedback on this proposal and most respondents agreed with this change. As mentioned above, some respondents expressed interest in retaining some of the material contained in Section PS 6410 and PS 6420. The AASB has incorporated some of the material from these two standards into AuG-50.
12. The AASB noted that some stakeholders may consider that the AASB is replacing Sections in the Handbook that contained Recommendations with a Guideline that contains no requirements. However, [AuG-50](#) is built upon the requirements in [CSAE 3001](#), which is the relevant standard for conducting performance audits and supersedes Sections PS 5000, PS 5400, PS 6410 and PS 6420.

**List of Respondents to the Exposure Draft**

Respondent	Written Response	Other Feedback 1
Anonymous Respondent 2	✓	ü

Association des vérificateurs généraux municipaux du Québec 3 – this group comprises representatives from the following organizations:	ü	
• Ville de Gatineau		ü
• Ville de Laval		ü
• Ville de Lévis		ü
• Ville de Longueuil		
• Ville de Montréal		ü
• Ville de Québec		
• Ville de Saguenay		
• Ville de Sherbrooke		
• Ville de Terrebonne		
• Ville de Trois-Rivières		
Auditor General of the City of Ottawa		ü
Auditor General of the City of Toronto		ü
BDO Canada LLP		ü
Canadian Audit and Accountability Foundation		ü
Deloitte LLP		ü
Institute of Internal Auditors (IIA)	ü	
Local Government of British Columbia		ü
Provincial Auditor of Saskatchewan	ü	ü
Office of the Auditor General of Alberta	ü	ü
Office of the Auditor General of British Columbia	ü	ü
Office of the Auditor General of Canada	ü	ü
Office of the Auditor General of Manitoba	ü	
Office of the Auditor General – Newfoundland and Labrador	ü	ü
Office of the Auditor General of Nova Scotia		ü
Office of the Auditor General of Ontario	ü	
Office of the Auditor General of Prince Edward Island		ü
Office of the Auditor General of Québec	ü	ü
<b>Total Respondents</b>	<b>11</b>	<b>19</b>

#### Summary of Participants in Consultations

	Accounting Firms	Federal / Provincial Auditor Generals	Municipal Auditor Generals	Other	Total Participants
Format	Number of Participants				
Virtual Roundtable with CCOLA's NPPG 4	0	19	0	0	19
Other Virtual Roundtables	2	19	10	2	33
<b>TOTAL</b>	<b>2</b>	<b>38</b>	<b>10</b>	<b>2</b>	<b>52</b>

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## Footnotes

1. AASB staff collected other feedback via virtual roundtables with respondents. Further details on these attendees are provided in the next table.
  2. This respondent requested confidentiality. Therefore, the letter is not included in the response package posted on the AASB website.
  3. This response was a joint letter from the 10 Quebec municipalities, signed by the Vérificateur général of each municipality.
  4. Canadian Council of Legislative Auditors' National Professional Practice Group
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