

**EXPOSURE DRAFT**

**ED XXX**  
(October 2010)

**Proposed Standard on  
Assurance Engagements  
ASAE XXXX  
*Engagements to Perform  
Specified Assurance  
Procedures***

Issued for Comment by the **Auditing and Assurance Standards Board**

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**Australian Government**

**Auditing and Assurance Standards Board**

## **Commenting on this Exposure Draft**

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A copy of all non-confidential submissions will be placed on public record on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au).

## **Obtaining a Copy of this Exposure Draft**

This Exposure Draft is available on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au).

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## PREFACE

### Reasons for Issuing ED XXX

The Auditing and Assurance Standards Board (AUASB) makes Auditing Standards under section 336 of the *Corporations Act 2001* for the purposes of the corporations legislation and formulates auditing and assurance standards for other purposes.

The AUASB issues Standard on Assurance Engagements ASAE XXXX *Engagements to Perform Specified Assurance Procedures* pursuant to the requirements of the legislative provisions explained below.

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (the CLERP 9 Act) established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001* (ASIC Act), as from 1 July 2004. Under section 227B of the ASIC Act the AUASB may formulate Assurance Standards for other purposes.

### Main Proposals

This proposed Standard on Assurance Engagements (ASAE) establishes mandatory requirements and provides explanatory guidance for undertaking and reporting on assurance engagements to conduct specified assurance procedures.

### Proposed Operative Date

It is intended that this proposed ASAE will be operative from the date of issuance.

### Request for Comments

Comments are invited on this Exposure Draft of the proposed ASAE by no later than 7 May 2010. In addition, respondents are asked to consider and respond to the following questions:

1. What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community for compliance with this proposed ASAE?

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

The AUASB would prefer that respondents express a clear overall opinion on whether the proposed ASAE, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. The AUASB regards both critical and supportive comments as essential to a balanced review of the proposed ASAE.

Draft

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**(PROPOSED AUTHORITY STATEMENT)**

The Auditing and Assurance Standards Board (AUASB) formulates this Proposed Standard on Assurance Engagements ASAE XXXX *Engagements to Perform Specified Assurance Procedures* as set out in paragraphs 1 to XX, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

This Proposed Standard on Assurance Engagements is to be read in conjunction with the *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Standards on Assurance Engagements are to be understood, interpreted and applied.

Dated: XX XX 2010

M H Kelsall  
Chairman - AUASB

**STANDARD ON ASSURANCE ENGAGEMENTS  
ASAE XXXX**

***Engagements to Perform Specified Assurance  
Procedures***

**Application**

- 1 This Standard on Assurance Engagements (ASAE) applies to engagements to carry out assurance procedures, as specified between the parties, (specified assurance procedures) on any subject matter either to provide:
- (a) a reasonable assurance opinion;
  - (b) a limited assurance conclusion; or
  - (c) a report of factual findings, where no conclusion is reached and no assurance is provided.

**Operative Date**

- 2 This ASAE is operative from the date of issuance.

**Introduction**

- 3 This ASAE deals with the assurance practitioner's<sup>1</sup> professional responsibilities to accept SAP engagements only when the level of assurance to be provided:
- (a) is likely to meet the needs of users of the assurance practitioner's report;
  - (b) reflects the assurance practitioner's scope for exercising professional judgement in determining the procedures to be conducted; and

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<sup>1</sup> The term "assurance practitioner" is used throughout this ASAE as defined in ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*. Such reference is not intended to imply that assurance is being provided. The term is used to indicate that the work is required to be performed and the report prepared by persons who have adequate training, experience and competence in assurance.

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- (c) is appropriate given the accessibility of sufficient, appropriate evidence to support the assurance conclusion.

Specifically, it expands on how the *Framework for Assurance Engagements*, ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, ASA 210 *Agreeing the Terms of Audit Engagements* and ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* are applied in the acceptance of a SAP engagement.

- 4 This ASAE deals with how the SAP engagement process is affected by whether assurance or no assurance is to be provided. Specifically it identifies that risk assessment, consideration of materiality, responding to assessed risks and evaluation of evidence gathered are aspects of an assurance engagement which are not conducted when no assurance is to be provided.
- 5 This ASAE deals with how the form and content of an assurance practitioner's report as a result of a SAP engagement are affected by whether assurance or no assurance is being provided. This ASAE helps to promote the user's understanding of the practitioner's report. Specifically, it expands on how ASA 805 *Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; ASRE 2405 *Review of Historical Financial Information Other than a Financial Report* and ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* are applied in reporting on a SAP engagement.
- 6 A SAP engagement which provides no assurance is not an assurance engagement<sup>2</sup> as no conclusion is expressed. SAP engagements which provide no assurance may still involve the evaluation or measurement of the subject matter against criteria but the assurance practitioner does not use their professional judgement to assess whether the results of this evaluation or measurement amounts to sufficient appropriate evidence to provide a reasonable basis for expressing a conclusion<sup>3</sup>.

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<sup>2</sup> The *Framework for Assurance Engagements* defines "assurance engagement" as an engagement in which an assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

<sup>3</sup> *Framework* paragraph 9.

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- 7 SAP engagements, whether they provide assurance or no-assurance, may involve the conduct of the same or similar assurance procedures. Due to the similarity in the procedures conducted, the outcomes of these engagements may be easily misunderstood by users. In order for users to distinguish between SAP engagements which provide assurance from those which provide no assurance, the wording of the practitioners' reports need to clearly differentiate between assurance and non assurance engagements.

**Objective of the Assurance Practitioner**

- 8 The objectives of the assurance practitioner in a SAP engagement is to carry out procedures of an assurance nature to which the assurance practitioner and the entity and any appropriate third parties have agreed, and provide a level of assurance which is appropriate in the circumstances.
- 9 If the assurance practitioner provides a report of the factual findings of specified assurance procedures, where no assurance is expressed, users of the report rely on the professional expertise and competence of the practitioner in conducting the SAPs but assess for themselves the procedures and findings reported by the assurance practitioner and draw their own conclusions from the assurance practitioner's work. Use of the report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results.
- 10 If the assurance practitioner provides a conclusion in their report expressing reasonable or limited assurance, users of the report are entitled to rely on that conclusion rather than evaluate for themselves the procedures and findings reported. Use of the report need not be restricted, as the practitioner's conclusion is self explanatory.

**Definitions**

[Insert definitions if necessary]

**Requirements**

**Ethical Requirements Relating to a Specified Assurance Procedures Engagement**

- 11 When conducting a SAP engagement, whether assurance is to be provided or not, the assurance practitioner shall comply with the

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fundamental ethical principles of integrity, objectivity; professional competence and due care, confidentiality and professional behaviour.

- 12 When conducting a specified assurance procedures engagement the assurance practitioner shall comply with this ASAE and with the terms of the engagement.

**Acceptance of a SAP Engagement**

- 13 An assurance practitioner shall not accept a SAP engagement unless the level of assurance to be provided is likely to meet the needs of users of the assurance practitioner's report.
- 14 An assurance practitioner shall not accept a SAP engagement to provide assurance unless the circumstances of the engagement indicate that they will be able to exercise their professional judgement in responding to assessed risks by selecting the nature, timing and extent of assurance procedures.
- 15 An assurance practitioner shall not accept a SAP engagement to provide assurance unless the circumstances of the engagement indicate that they will be able to gather sufficient, appropriate evidence to support the assurance conclusion.

**Terms of the Engagement**

- 16 The assurance practitioner shall agree the assurance procedures to be conducted with the engaging party, and other specified parties who will receive copies of the report and ensure that there is a clear understanding as to whether reasonable, limited or no assurance will be provided in the practitioner's report.
- 17 When agreeing the terms of the engagement with the engaging party, the assurance practitioner shall agree to issue a report of factual findings which provides no assurance only if the terms of the engagement specify the nature, timing or extent of procedures such that the practitioner will not be required to exercise their professional judgement in determining or modifying the procedures to be conducted.
- 18 When conducting an SAP engagement to provide no assurance, if the assurance practitioner is unable to conduct the exact nature, timing or extent of procedures agreed, but alternative procedures are

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available, modified terms of engagement shall be agreed with the engaging party prior to conducting those alternative procedures.

**Performing the engagement**

- 19 If the SAP engagement is an assurance engagement the relevant AUASB Standards are required to be followed before an assurance conclusion is provided.
- 20 If the SAP engagement is not an assurance engagement then the AUASB Standards do not apply, however, the SAP engagement must be conducted in accordance with this ASAE to ensure that no-assurance engagements are not misunderstood by users as providing assurance.

**Planning**

- 21 The assurance practitioner shall plan the work so that the specified assurance procedures engagement will be performed in an effective manner, in accordance with the terms of the engagement and this ASAE.
- 22 For a SAP no-assurance engagement, the engagement plan shall be restricted to the nature, timing and extent of procedures agreed in the terms of engagement. The plan does not include alternative or further assurance procedures unless agreed with the engaging party in amended terms of engagement.
- 23 For a SAP assurance engagement, the engagement plan is an iterative process which develops over the course of the engagement. The nature, timing and extent of further assurance procedures are based on the outcome of the risk assessment and cannot be limited by the terms of engagement.

**Risk Assessment**

- 24 In an assurance engagement, the assurance practitioner conducts a risk assessment in order to plan the nature, timing and extent of assurance procedures which will reduce assurance engagement risk is to an acceptably low level for a reasonable assurance engagement or a level that is acceptable for a limited assurance engagement, in the circumstances of the engagement<sup>4</sup>. In contrast, in a no-assurance

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<sup>4</sup> Reasonable and limited assurance engagements are defined in the *Framework* paragraph 12.

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engagement the practitioner is not responsible for reducing assurance engagement risk and does not conduct a risk assessment.

- 25 For assurance engagements, the assurance practitioner shall carry out the procedures determined by the practitioner in response to assessed risks and reflected in the engagement plan. If further assurance procedures need to be conducted in order to gather sufficient appropriate evidence, the plan shall be amended accordingly.

**Materiality**

- 26 Under the *Framework*<sup>5</sup> materiality is relevant when the assurance practitioner determines the nature, timing and extent of evidence-gathering procedures, and when assessing whether the subject matter information is free of material misstatement. In a no-assurance engagement the assurance practitioner does not consider materiality as the practitioner neither determines the nature, timing and extent of evidence-gathering procedures nor assessing whether the subject matter information is free of material misstatement.

**Work Performed by Assistants**

- 27 When work is delegated to assistants, the assurance practitioner shall carefully direct, supervise and review the work delegated.

**Work Performed by Another Assurance practitioner**

- 28 When the assurance practitioner uses the work of another assurance practitioner, the assurance practitioner shall determine how the work of the other assurance practitioner will affect the SAP engagement.

**Work Performed by an Expert**

- 29 When using the work performed by an expert, the assurance practitioner shall obtain sufficient appropriate evidence that such work is adequate for the purposes of the SAP engagement.

**Documentation**

- 30 The assurance practitioner shall document matters which are important in providing evidence to support the report of factual findings or conclusion, and evidence that the specified assurance

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<sup>5</sup> *Framework* paragraph 48.

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procedures engagement was carried out in accordance with this ASAE and the terms of the engagement.

**Procedures and Evidence**

- 31 If no assurance is to be provided, the assurance practitioner shall carry out only the procedures agreed in the terms of the engagement and use the results of the assurance procedures as the basis for a report of factual findings but does not assess those results. The assurance practitioner does not conduct alternative or further assurance procedures unless agreed with the engaging party in amended terms of engagement.
- 32 For assurance engagements, the assurance practitioner shall carry out the procedures determined by the practitioner in the engagement plan. The assurance practitioner assesses the results of the procedures conducted and if further assurance procedures need to be conducted in order to gather sufficient appropriate evidence, the plan shall be amended accordingly.

**Reporting**

- 33 The assurance practitioner shall comply with the reporting requirements of:
- (a) ASA 805 when providing reasonable assurance on historical financial information;
  - (b) ASA 2405 when providing limited assurance on historical financial information;
  - (c) ASAE 3000 when providing reasonable or limited assurance on matters other than historical financial information; and
  - (d) This ASAE when providing no assurance.
- 34 The report of factual findings for a SAP no-assurance engagement shall contain:
- (a) a title;
  - (b) an addressee (ordinarily the engaging party);

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- (c) identification of the specific financial or non-financial information to which the specified assurance procedures have been applied;
- (d) a statement that the procedures performed were those agreed with the engaging party;
- (e) a statement that the engagement was performed in accordance with ASAE XXXX;
- (f) in rare and exceptional circumstances, when a departure from a basic principle or essential procedure may be necessary, as indicated in XXX, the statement required under paragraph (e) shall provide details of the particular basic principle(s) or essential procedure(s) that has been departed from together with the justification for the departure. [Application material: As indicated in XXX, 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 XXX.)];
- (g) identification of the purpose for which the specified assurance procedures were performed;
- (h) a statement that the responsibility for determining the adequacy or otherwise of the procedures agreed to be performed by the assurance practitioner is that of the engaging party;
- (i) a listing of the specific procedures performed or reference to the terms and procedures of the engagement contained in another document such as an engagement letter;
- (j) a description of the assurance practitioner's factual findings including sufficient details of errors and exceptions found;
- (k) a statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed;
- (l) a statement that had the assurance practitioner performed additional procedures, an audit or review, other matters

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might have come to the assurance practitioner's attention that would have been reported;

- (m) a statement that the report is restricted to those parties that have agreed to the procedures to be performed;
- (n) a statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity's financial report taken as a whole;
- (o) the date of the report;
- (p) the assurance practitioner's address; and
- (q) the assurance practitioner's signature.

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## **Application and Other Explanatory Material**

### **Acceptance of a SAP Engagement**

- A1. In determining whether the level of assurance to be provided is likely to meet the needs of users of the assurance practitioner's report, the practitioner considers the purpose for which users intend to use the assurance practitioner's report. If users are likely to be able to interpret the factual findings resulting from assurance procedures conducted, whether alone or in combination with other available evidence, to reach reasonable conclusions, then a no-assurance engagement may be acceptable. If users are unlikely to be able to interpret the factual findings to reach reasonable conclusions then the assurance practitioner should not accept a no-assurance engagement.
- A2. Users are entitled to rely on the professional competence and expertise of the assurance practitioner in conducting the assurance procedures whether or not the practitioner is providing assurance in the form of a conclusion. However, if users are likely to rely on the professional judgement of the assurance practitioner to select appropriate assurance procedures to test the subject matter, then the practitioner only agrees to a SAP engagement to provide assurance.

### **Terms of the Engagement**

- A3. If the assurance practitioner needs to use their professional judgement to determine the procedures to be conducted in a SAP engagement, this implies that assurance is being provided, even if the practitioner does not provide an explicit conclusion. The practitioner can only select the procedures if they take responsibility for the evidence required to support the conclusion to be reached. In a no-assurance SAP engagement it is the user's responsibility to determine the sufficiency and appropriateness of the evidence to support the conclusion reached.
- A4. In a SAP engagement providing no assurance, it is the responsibility of the engaging party to determine the nature, timing and extent of procedures which are adequate to meet users' needs. Therefore the assurance practitioner does not have the discretion to conduct alternative or additional procedures without obtaining the engaging party's agreement.
- A5. The terms of the engagement with respect to the nature, timing and extent of assurance procedures need to be very specific for a no-

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assurance engagement to ensure that the assurance practitioner will not need to exercise their professional judgement. If the assurance procedures cannot be precisely agreed then it is an indication that an assurance engagement may be required to meet the users' needs.

- A6. The assurance practitioner needs to understand the engaging party's objectives in engaging the practitioner to ensure that an engagement appropriate to those objectives is agreed and to avoid any misunderstandings with respect to the scope of the engagement.
- A7. In a SAP engagement to provide assurance the assurance practitioner uses their professional judgement to assess the sufficiency and appropriateness of the evidence obtained to support their conclusion. In a SAP engagement to provide no assurance the user assesses the factual findings reported alone or in combination with other information to draw their own conclusion.

**Table 1: Differentiating factors between engagements to provide no assurance and reasonable or limited assurance**

<b>SAP Engagement</b>	<b>No assurance</b>	<b>Limited or reasonable assurance</b>
Nature, timing and extent of procedures responsibility of:	Engaging party	Assurance practitioner
Nature, timing and extent of procedures determined in:	Terms of engagement	Engagement plan
Changes to the nature, timing and extent of procedures are documented in:	Terms of engagement	Engagement plan
Assurance practitioner's professional judgement exercised in selecting procedures?	No	Yes
Sufficiency & appropriateness of	User	Assurance practitioner

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<b>SAP Engagement</b>	<b>No assurance</b>	<b>Limited or reasonable assurance</b>
evidence assessed by:		
Form of report	Factual findings, no conclusion	Conclusion

- A8. Matters to be agreed in a no-assurance engagement include the:
- (a) nature of the engagement, including the fact that the procedures performed will not constitute an audit or a review and that accordingly no assurance will be expressed;
  - (b) stated purpose for the engagement;
  - (c) identification of the subject matter to which the agreed-upon procedures will be applied;
  - (d) nature, timing and extent of the specific procedures to be applied;
  - (e) anticipated form of the report of factual findings; and
  - (f) limitations on distribution of the report of factual findings. When such limitation would be in conflict with the legal requirements if any, the assurance practitioner would not accept the engagement.
- A9. In certain circumstances, for example when the procedures have been agreed to between the regulator, industry representatives and representatives of the accounting profession, the assurance practitioner may not be able to discuss the procedures with all the parties who will receive the report of factual findings. In such cases, the assurance practitioner may consider, for example, discussing the procedures to be applied with appropriate representatives of the parties involved, reviewing relevant correspondence from such parties or sending them a draft of the type of report of factual findings that will be issued.
- A10. The agreed terms would ordinarily be recorded in an engagement letter or other suitable form.

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- A11. It is in the interest of both the entity and the assurance practitioner that the assurance practitioner sends an engagement letter, preferably before the commencement of the engagement, to help in avoiding misunderstandings with respect to the engagement. The engagement letter documents and confirms the assurance practitioner's acceptance of the appointment, the objective and scope of the engagement, the extent of the assurance practitioner's responsibilities to the entity and the form of any reports.
- A12. Matters that would be included in the engagement letter for a no-assurance engagement include:
- (a) a listing of the procedures to be performed as agreed upon between the parties; and
  - (b) a statement that the distribution of the report of factual findings would be restricted to the specified parties who have agreed to the procedures to be performed.

In addition, the assurance practitioner may consider attaching to the engagement letter a draft of the type of report of factual findings that will be issued. An example of an engagement letter for a specified assurance procedures engagement appears in Appendix 1.

**Planning**

- A13. Planning in a SAP engagement providing no assurance, is limited as the nature, timing and extent of assurance procedures is agreed in the terms of reference. Nevertheless the assurance practitioner will still need to plan certain matters such as the resources to be used on the engagement and access to the entity's staff, premises, records and documentation.

**Procedures and Evidence**

- A14. The procedures applied in an engagement to perform specified assurance procedures may include:
- (a) inspection;
  - (b) observation;
  - (c) inquiry and confirmation;
  - (d) computation; and

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- (e) analytical procedures.

Appendix 2 is an example report of factual findings which contains an illustrative list of procedures which may be used as one part of a typical SAP no-assurance engagement.

**Reporting**

- A15. The report of a specified assurance procedures engagement needs to describe the purpose of the engagement in sufficient detail to enable the user to understand the nature and extent of the work performed.

**Conformity with International Standards on Assurance Engagements**

There is no corresponding International Standard on Assurance Engagements.