

EXPOSURE DRAFT

**ED 03/10**  
(December 2010)

**Proposed Standard on  
Assurance Engagements  
ASAE 4400  
*Agreed-Upon Assurance  
Procedures to Report Factual  
Findings* (Revision of  
AUS 904)**

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



**Australian Government**

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**Auditing and Assurance Standards Board**

## **Commenting on this Exposure Draft**

Comments on this Exposure Draft should be forwarded so as to arrive by no later than 8 February 2011. Comments should be addressed to:

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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)

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## PREFACE

### **Reasons for Issuing ED 03/10**

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 ED 03/10 Proposed Standard on Assurance Engagements ASAE 4400 *Agreed-Upon Assurance Procedures to Report Factual Findings* for comment 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.

ED 03/10 conforms with ISRS 4400 *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*, issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. Differences between this proposed Auditing Standard and ISRS 4400 are noted in the conformity statement following the application material in the ED.

### **Main Proposals**

This proposed Standard on Assurance Engagements (ASAE 4400) establishes mandatory Requirements and provides Application and Other Explanatory material for assurance practitioners when accepting, undertaking and reporting on assurance engagements to conduct agreed-upon assurance procedures.

### **Proposed Operative Date**

It is intended that this proposed ASAE 4400 will be operative for engagements commencing on or after 1 July 2011.

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**Main Changes from AUS 904 *Engagements to Perform Agreed-upon Procedures* (July 2002)**

The main differences between this Standard on Assurance Engagements ASAE 4400 and the Auditing Standard issued by the Auditing and Assurance Standards Board of the Australian Accounting Research Foundation that it supersedes, *AUS 904 Engagements to Perform Agreed-upon Procedures* (July 2002), are included in the Table of Differences provided as an attachment to this Exposure Draft.

**Request for Comments**

Comments are invited on this Exposure Draft of the proposed ASAE 4400 by no later than 8 February 2011. 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?
2. Are there any significant public interest matters that constituents wish to raise?
3. Will adherence to the independence requirements applicable to Other Assurance Engagements present any additional costs for assurance practitioners? Will these costs, if any, be passed on to the business community?
4. Will the term “assurance procedures” be properly understood by stakeholders as not providing assurance when conducted in an agreed-upon assurance engagement? Is it likely to be confused with the provision of assurance?
5. Does the practitioner merely exercise professional competence and skill in conducting the procedures agreed, as currently drafted, or does the practitioner also need to exercise professional judgement to conduct agreed procedures, as they would in an audit or review?
6. In an agreed-upon assurance procedures engagement, as currently drafted, the assurance practitioner does not assess:
  - (a) the adequacy of the procedures to be conducted;

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- (b) risk; or
- (c) the findings.

Do you consider any of these matters need to be assessed? If so, under what circumstances?

- 7. Do the factual findings reported constitute a conclusion provided by the practitioner?
- 8. If a user relies on the factual findings reported is this based on:
  - (a) the practitioner's competence and skill in conducting the procedures (as currently drafted); or
  - (b) assurance provided by the practitioner? If so, how is the level of assurance defined?

The AUASB would prefer that respondents express a clear overall opinion on whether the proposed ASAE 4400, 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 4400.

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**(PROPOSED) AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) formulates this Proposed Standard on Assurance Engagements ASAE 4400 *Agreed-upon Assurance Procedures to Report Factual Findings* as set out in paragraphs 1 to 46, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

This Proposed Standard on Assurance Engagements ASAE 4400 is to be read in conjunction with the *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how its Standards are to be understood, interpreted and applied.

# STANDARD ON ASSURANCE ENGAGEMENTS ASAE 4400

## *Agreed-upon Assurance Procedures to Report Factual Findings*

### Application

- 1 This Standard on Assurance Engagements (ASAE) applies to agreed-upon assurance procedures engagements to be conducted by an assurance practitioner, where factual findings are reported but no conclusion or opinion is expressed and no explicit assurance is provided by the assurance practitioner. The intended users draw their own conclusions based on the factual findings reported combined with any other information they have obtained.
- 2 This Standard on Assurance Engagements may also be applied, as appropriate, to agreed-upon assurance procedures engagements to be conducted by a practitioner other than an assurance practitioner.

### Operative Date

- 3 ASAE 4400 is operative for agreed-upon assurance procedures engagements commencing on or after 1 July 2011.

### Introduction

- 4 An agreed-upon assurance procedures engagement involves the conduct of assurance procedures from which no conclusion or opinion is expressed by the assurance practitioner and no assurance is provided explicitly to users. Instead only factual findings obtained as a result of the procedures conducted are reported.
- 5 An agreed-upon assurance procedures engagement is not an assurance engagement<sup>1</sup> *per se*, even though assurance procedures are conducted, as the engagement does not contain all of the elements of an assurance engagement.<sup>2</sup> In an agreed-upon assurance procedures

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<sup>1</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>2</sup> Refer to *Framework for Assurance Engagements* paragraph 21.

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engagement the assurance practitioner does not assess whether the results of the assurance procedures amount to sufficient appropriate evidence to provide a reasonable basis for expressing a conclusion or whether additional or more relevant procedures need to be conducted in the circumstances.

- 6 An assurance practitioner may be asked to conduct other types of engagements for which assurance is also not provided but in contrast to agreed-upon assurance procedures engagements, assurance procedures are not primarily conducted. These engagements are not dealt with in this Standard on Assurance Engagements and include:
- (a) consulting (or advisory) services;
  - (b) compilation engagements; and
  - (c) business services, such as accounting and taxation services.

The objective of consulting services is the provision of professional advice and recommendations with respect to the subject matter. The objective of compilations is the presentation of financial information in a specified form. The objective of business services is the conduct of accounting procedures, computations or the provision of business or taxation advice. These engagements are not subject to the requirements of the AUASB Standards.

- 7 ASAE 4400 addresses the assurance practitioner's professional responsibilities to accept agreed-upon assurance procedures engagements to report factual findings only if:
- (a) explicit assurance is not deemed to be necessary to meet the needs of intended users of the assurance practitioner's report;
  - (b) the assurance practitioner will not be required to determine the sufficiency of the procedures to be conducted;
  - (c) neither an assurance conclusion nor assurance opinion will be provided on the findings but the intended users may draw their own conclusions with respect to the subject matter; and
  - (d) each of the procedures to be conducted is to be clearly specified in the engagement letter.

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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 still complied with by the assurance practitioner in the acceptance of an agreed-upon assurance procedures engagement.

- 8 ASAE 4400 deals with the conduct of agreed-upon assurance procedures engagements and identifies that risk assessment, responding to assessed risks, evaluation of evidence gathered and expressing a conclusion or opinion are aspects of an assurance engagement which are not conducted when no assurance is to be provided.
- 9 Assurance engagements and agreed-upon assurance procedures engagements involve the conduct of the same or similar assurance procedures. Due to the nature of the procedures conducted and the skills of the assurance practitioner, an agreed-upon assurance procedures engagement may be misunderstood as providing assurance. The *Framework for Assurance Engagements*<sup>3</sup> states that the assurance practitioner should clearly distinguish a report on an engagement that is not an assurance engagement from an assurance report. ASAE 4400 deals with the content of a report of factual findings in order to differentiate it from an assurance report.
- 10 ASAE 4400 deals with how the form, content and restrictions on distribution of an assurance practitioner's report of factual findings helps to minimise misinterpretation and promote the user's understanding of that report.

### **Objective of the Assurance Practitioner**

- 11 The objective of the assurance practitioner in an agreed-upon assurance procedures engagement is to carry out procedures, to which the assurance practitioner, the engaging party and any third party (as applicable) have agreed, without providing assurance or implying that assurance has been provided, and to report factual findings.

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<sup>3</sup> *Framework for Assurance Engagements*, paragraph 15.

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## **Definitions**

- 12 Assurance practitioner means a person or an organisation, whether in public practice, industry, commerce or the public sector, providing assurance services.<sup>4</sup>
- 13 Assurance procedures means procedures conducted by an assurance practitioner to evaluate or measure the subject matter against criteria. Assurance procedures may include tests of controls or substantive procedures.

## **Requirements**

### **Ethical Requirements Relating to an Agreed-upon Assurance Procedures Engagement**

- 14 When conducting an agreed-upon assurance procedures engagement, the assurance practitioner shall comply with the ethical requirements, including those pertaining to independence, relating to Other Assurance Engagements as if the engagement were an assurance engagement. (Ref: Para. A1–A2)
- 15 The assurance practitioner’s firm shall establish and maintain its system of quality control for agreed-upon assurance procedures engagements as if the engagement were an assurance engagement. (Ref: Para. A3)
- 16 When conducting an agreed-upon assurance procedures engagement the assurance practitioner shall comply with ASAE 4400 and with the terms of the engagement agreed with the engaging party.

### **Acceptance of an Agreed-upon Assurance Procedures Engagement**

- 17 The assurance practitioner shall obtain an understanding of the needs and objectives of the intended users, including a class of intended users, of the assurance practitioner’s report of factual findings and the purpose for which that report will be used. (Ref: Para. A4-A5)

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<sup>4</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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- 18 Even though the practitioner assesses the needs of users in accepting an agreed-upon assurance procedures engagement, the assurance practitioner is not responsible for the sufficiency of the assurance procedures to be conducted.
- 19 Where a representative body specifies the agreed-upon assurance procedures to be conducted to meet the needs of a class of intended users, then the assurance practitioner shall be satisfied that the body does represent the class of users for whom the engagement is intended.
- 20 The assurance practitioner shall not accept an agreed-upon assurance procedures engagement if, in the professional judgement of the assurance practitioner:
- (a) the provision of factual findings alone which provides no assurance is unlikely to meet the needs of the intended users; or (Ref: Para. A5)
  - (b) the circumstances of the engagement indicate that the intended users are likely to construe the outcome of the engagement as providing an assurance conclusion about the subject matter; or
  - (c) all of the elements of an assurance engagement<sup>5</sup> are met; or (Ref: Para. A6-A8)
  - (d) the engagement has no rational purpose; or
  - (e) the circumstances of the engagement indicate that it will be necessary for the assurance practitioner to do any of the following:
    - (i) conduct a risk assessment in order to determine the procedures to be undertaken;
    - (ii) determine the sufficiency of assurance procedures to be conducted; (Ref: Para. A9)
    - (iii) evaluate the findings in order to determine the sufficiency and appropriateness of the evidence gathered; (Ref: Para. A10) or

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<sup>5</sup> The elements of an assurance engagement are set out in *Framework for Assurance Engagements*, paragraph 20.

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- (iv) reach a conclusion or form an opinion based on the evidence gathered.

**Agreeing on the Terms of the Agreed-upon Assurance Procedures Engagement**

- 21 The assurance practitioner shall agree on the terms of the agreed-upon assurance procedures engagement with the engaging party, and other specified parties who will receive copies of the report<sup>6</sup>. If additional parties are intended users of the report of factual findings but are not signatories to the terms of engagement, these parties shall be identified in the engagement letter and all other parties shall be excluded from using the report. (Ref: Para. A11-A14, A17-A18)
- 22 The terms of engagement shall state that, whilst reliance may be placed on the factual findings, no assurance will be provided in the assurance practitioner's report. Consequently, in order to reach a conclusion regarding the subject matter users must conduct their own assessment of the findings, combined with other information available to them and if necessary conduct further procedures in order to obtain sufficient appropriate evidence on which to base any such conclusion.
- 23 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 assurance practitioner will not be required to exercise their professional judgement in determining or modifying the procedures to be conducted. (Ref: Para. A15-A16)
- 24 When conducting an agreed-upon assurance procedures engagement, if the assurance practitioner is unable to conduct the exact nature, timing or extent of procedures agreed, but alternative procedures can be performed, modified terms of engagement shall be agreed with the engaging party prior to conducting those alternative procedures.

**Planning**

- 25 The assurance practitioner shall plan the work so that the engagement will be performed in an effective manner, in accordance with the terms of the engagement and ASAE 4400.

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<sup>6</sup> See Appendix 3 for an example of an engagement letter for an agreed-upon assurance procedures engagement.

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- 26 The engagement plan for an agreed-upon assurance procedures engagement 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.  
(Ref: Para. A19)

**Risk Assessment**

- 27 The assurance practitioner does not conduct a risk assessment for an agreed-upon assurance procedures engagement, as the nature, timing and extent of procedures to be conducted are agreed with the engaging party rather than determined by the assurance practitioner in response to assessed risks.

**Materiality**

- 28 In an agreed-upon assurance procedures engagement the assurance practitioner does not apply materiality to assess the factual findings to determine whether the subject matter information is free of material misstatement.

**Quality Control**

- 29 The assurance practitioner shall take responsibility for the overall quality of the agreed-upon assurance procedures engagement and shall apply the firm's quality control procedures applicable to Other Assurance Engagements.
- 30 Throughout the engagement, the assurance practitioner shall remain alert, through observation and making enquiries as necessary, for evidence of non-compliance with relevant ethical requirements, including independence, by members of the engagement team. If matters come to the assurance practitioner's attention that indicate that members of the engagement team have not complied with relevant ethical requirements, the assurance practitioner shall determine the appropriate action.
- 31 The assurance practitioner shall be satisfied that the engagement team<sup>7</sup>, and any experts who are not part of the engagement team,

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<sup>7</sup> Engagement team, as defined in the AUASB Glossary (in the context of ASQC 1), means all partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm.

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collectively have the appropriate competence and capabilities to perform the agreed-upon assurance procedures in accordance with ASAE 4400.

**Using the Work of Others**

- 32 The assurance practitioner shall take responsibility for the direction, supervision and performance of the engagement and the accurate reporting of factual findings.
- 33 When the assurance practitioner uses the work of another assurance practitioner, internal auditors or an expert the assurance practitioner shall evaluate the findings communicated and the adequacy of their work, including their objectivity and technical competence in conducting the procedures.

**Documentation**

- 34 The assurance practitioner shall document:
- (a) issues identified with respect to compliance with relevant ethical requirements and how they were resolved;
  - (b) conclusions on compliance with independence requirements for 'other assurance engagements';
  - (c) conclusions reached regarding the acceptance and continuance of client relationships and acceptance of the agreed-upon assurance procedures engagement;
  - (d) the procedures conducted and the factual findings obtained as identified in the agreed-upon assurance procedures report; and
  - (e) evidence that the engagement was carried out in accordance with ASAE 4400 and the terms of the engagement.

**Performing the engagement**

- 35 As no assurance is to be explicitly 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 to provide a report of factual findings. (Ref: Para. A20-21)

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- 36 When conducting the assurance procedures, if the nature, timing and extent of the procedures to be conducted is not adequately specified in the terms of engagement, the assurance practitioner shall request amended terms of engagement so that they do not need to determine the procedures to be conducted. The assurance practitioner does not conduct alternative or further assurance procedures unless requested by the engaging party and agreed in amended terms of engagement. (Ref: Para. A22)
- 37 If the engaging party's requirements alter during the course of the engagement and require the assurance practitioner to draw conclusions from the findings then a new engagement will need to be agreed for the provision of assurance and conducted in accordance with applicable AUASB standards, including ensuring that the elements of an assurance engagement are met.

**Reporting**

- 38 The assurance practitioner provides a report of factual findings, but does not evaluate those findings in order to draw a conclusion or form an opinion which provides explicit assurance. If the assurance practitioner is reporting on an agreed-upon assurance procedures engagement in conjunction with an assurance engagement, the report of factual findings must be clearly differentiated from the assurance report.
- 39 The assurance practitioner is unable to express a conclusion or opinion in an agreed-upon assurance procedures engagement as the assurance practitioner has not conducted a risk assessment, responded to assessed risks by determining the procedures to be conducted or assessed whether sufficient appropriate evidence has been obtained as a reasonable basis for expressing a conclusion.
- 40 Use of the report should be restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as intended users in the engagement letter since others, unaware of the reasons for the procedures, may misinterpret the results.
- 41 The intended users assess for themselves the findings reported by the assurance practitioner and draw their own conclusions from the assurance practitioner's work with respect to the subject matter. In order to draw a conclusion, users will need to assess the factual findings reported by the assurance practitioner along with information from other sources and ensure that the evidence which

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they provide is sufficient and appropriate to provide a basis for any conclusion they may reach. The intended users of the report are entitled to rely on the professional competence and expertise of the assurance practitioner in conducting the procedures effectively and reporting the findings accurately. (Ref: Para. A22)

- 42 The report of factual findings for an agreed-upon assurance procedures engagement shall contain:
- (a) a title;
  - (b) an addressee (ordinarily the engaging party);
  - (c) identification of the specific information to which the 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 4400; (Ref: Para. A23)
  - (f) identification of the purpose for which the agreed-upon assurance procedures engagement was performed;
  - (g) a statement that the responsibility for determining the adequacy or otherwise of the assurance procedures agreed to be performed by the assurance practitioner is that of the engaging party;
  - (h) a listing of the specific assurance procedures performed, detailing the nature, timing and extent of each procedure; (Ref: Para. A25)
  - (i) a description of the assurance practitioner's factual findings in relation to each procedure performed, including sufficient details of errors and exceptions found; (Ref: Para. A25)
  - (j) identification of any of the assurance procedures agreed in the terms of the engagement which could not be conducted and why that has arisen; (Ref: Para A26)

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- (k) a statement that the assurance 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 might have come to the assurance practitioner's attention that would have been reported;
  - (m) a statement that use of the report is restricted to those parties that have agreed to the procedures to be performed and those identified in the report;
  - (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 or other specified report taken as a whole;
  - (o) the date of the report;
  - (p) the assurance practitioner's address; and
  - (q) the assurance practitioner's signature.
- 43 If the assurance practitioner is required by law or regulation to use a specific layout or wording for the report of factual findings, the report of factual findings shall refer to ASAE 4400 only if the assurance practitioner's report includes, at a minimum, each of the elements in the preceding paragraph.
- 44 If law or regulation of the relevant jurisdiction prescribes the layout or wording of the assurance practitioner's report in a form or in terms which are significantly different from the requirements of ASAE 4400. In these circumstances the assurance practitioner shall evaluate:
- (a) whether users might misunderstand the factual findings reported and the fact that no assurance is provided; and, if so,
  - (b) whether additional explanation in the report of factual findings can mitigate possible misunderstanding.

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If the assurance practitioner considers that additional explanation in the auditor's report cannot mitigate possible misunderstanding, the auditor shall not accept the engagement unless required by law or regulation to do so. As an agreed-upon procedures engagement conducted in accordance with such law or regulation does not comply with ASAE 4400, the auditor shall not include any reference in the report of factual findings to the engagement having been conducted in accordance with ASAE 4400.

- 45 The assurance practitioner shall not issue modifications or an emphasis of matter in a report of factual findings as no conclusion or opinion is expressed. Nevertheless, the following matters, if applicable, are reported as part of the factual findings:
- (a) errors or exceptions identified as a result of the procedures conducted, regardless of whether they were subsequently rectified by the entity; and
  - (b) inability of the assurance practitioner to conduct any of the agreed-upon assurance procedures. (Ref: Para. A24-A25)

If the assurance practitioner is aware that an error or exception identified has been substantially rectified, the fact that it has been rectified may be included in the report.

- 46 The report of factual findings for an agreed-upon assurance procedures engagement shall be clearly distinguished from an assurance report in that it shall not contain:
- (a) statement of compliance with AUASB Standards applicable to assurance engagements, except for reference to ASAE 4400;
  - (b) inappropriate use of the terms "assurance", "audit", "review", "opinion" or "conclusion"; or
  - (c) any statement that could reasonably be mistaken for a conclusion designed to enhance the degree of confidence of intended users about the outcome of the evaluation or measurement of a subject matter against criteria.<sup>8</sup>

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<sup>8</sup> Refer to *Framework for Assurance Engagements*, paragraph 16.

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**Application and Other Explanatory Material**

**Ethical Requirements Relating to an Agreed-upon Assurance Procedures Engagement (Ref: Para. 14-16)**

- A1. The ethical requirements, including independence, applicable to Other Assurance Engagements are applicable to agreed-upon assurance procedures engagements as these engagements require the conduct of assurance procedures resulting in factual findings on which the intended users are entitled to rely. The relevant ethical requirements are defined in *ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*<sup>9</sup>.
- A2. The ethical requirements permit the independence requirements to be modified, if the intended users of the report are knowledgeable as to the purpose, subject matter information and limitations of the report and explicitly agree to the application of the modified independence requirements. In these circumstances, the report of factual findings is to include a restriction on use and distribution to the intended users only. If modified independence requirements are adopted in the terms of the engagement, but the intended users include a class of users who are not party to the terms of the engagement, they are required to be made aware of the modified independence requirements, such as by reference to them in the report of factual findings.
- A3. ASQC 1 deals with the firm's responsibilities to establish and maintain its system of quality control for Other Assurance Engagements.

**Acceptance of an Agreed-upon Assurance Procedures Engagement (Ref: Para. 17-20)**

- A4. The assurance practitioner needs to understand the engaging party's objectives in engaging the assurance 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.
- A5. In determining whether the provision of a report of factual findings is likely to meet the needs of intended users, or class of intended

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<sup>9</sup> For ethical requirements relating to Other Assurance Engagements, refer to APESB Exposure draft 03/10 of Proposed APES 110 *Code of Ethics for Professional Accountants*, Section 291 *Independents – other assurance engagements*.

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users, of the assurance practitioner's report, the assurance practitioner considers the purpose for which users intend to use the 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 an engagement to report factual findings may be acceptable. If users are unlikely to be able to interpret the factual findings to reach reasonable conclusions then the assurance practitioner does not accept an agreed-upon assurance procedures engagement, but may accept an assurance engagement if appropriate.

A6. The assurance practitioner is not precluded from accepting an agreed-upon assurance procedures engagement if some elements of an assurance engagement, provided in the *Framework for Assurance Engagements*, are met, with the exception of a written assurance report. The relevance of the elements of an assurance engagement to an agreed-upon assurance procedures engagement are:

- A three party relationship: An agreed-upon assurance procedures engagement may involve a three party relationship but is not required to do so.
- An appropriate subject matter: the assurance practitioner does not assess the appropriateness of the subject matter in an agreed-upon assurance procedures engagement. Information, which is to be subjected to the agreed procedures, does need to be identifiable so that it may be subjected to the agreed procedures.
- Suitable criteria: whilst the procedures to be conducted may involve evaluation or measurement of the information against criteria, the suitability of the criteria do not need to be assessed by the assurance practitioner as conclusions are not drawn from the procedures.
- Sufficient appropriate evidence: the assurance practitioner provides factual findings only and does not assess the sufficiency or appropriateness of the evidence as they do not draw any conclusions from the findings. If users wish to draw conclusions they assess for themselves the sufficiency and appropriateness of the evidence which the findings provide on their own or in combination with other available evidence.

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- A7. If all of the elements of an assurance engagement are met the assurance practitioner declines an agreed-upon assurance procedures engagement, however an assurance engagement may be accepted and applicable AUASB Standards applied. Appendix 1 provides a table of *Differentiating factors between agreed-upon procedures engagements and assurance engagements* to assist the assurance practitioner in determining whether the engagement is an agreed-upon assurance procedures engagement or an assurance engagement.
- A8. The extent of the subject matter does not affect whether an engagement is an assurance engagement or not. Even if the subject matter of an engagement is very specific, when the engagement contains the elements of an assurance engagement, the assurance practitioner complies with the requirements of either:
- (a) *ASA 805 Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* when providing reasonable assurance on historical financial information other than a financial report;
  - (b) *ASA 2405 Review of Historical Financial Information Other than a Financial Report* when providing limited assurance on historical financial information other than a financial report; or
  - (c) *ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information* when providing reasonable or limited assurance on matters other than historical financial information<sup>10</sup>.

Example engagements are described in Appendix 2 illustrating how an engagement could be scoped as an agreed-upon assurance procedures engagement or an assurance engagement for the same subject matter.

- A9. The assurance practitioner may assist the client and intended users in determining the assurance procedures to be conducted to ensure that the procedures are able to be conducted and are likely to meet the needs of the intended users. Nevertheless, the assurance practitioner is not responsible for the adequacy of the assurance procedures nor for assessing whether the findings will be sufficient either alone or

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<sup>10</sup> Refer also to ASAE 3100 *Compliance Engagements* and ASAE 3500 *Performance Engagements*, as appropriate.

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in combination with other evidence to support any conclusions which the users intend to draw.

- A10. If it is necessary for the assurance practitioner to conduct a risk assessment, respond to assessed risks or evaluate the evidence gathered then this indicates that the assurance practitioner is using their professional judgement to gather sufficient appropriate evidence to support a conclusion. In these circumstances the engagement is an assurance engagement and the relevant requirements in the AUASB standards must be applied.

**Agreeing on the Terms of the Agreed-upon Assurance Procedures Engagement (Ref: Para. 21-24)**

- A11. Matters to be agreed in an agreed-upon assurance procedures 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 assurance 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;
  - (f) identification of the intended users of the report including those who may not be parties to the terms of engagement, such as a regulator or bank; and
  - (g) 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.
- A12. The agreed terms would ordinarily be recorded in an engagement letter or other suitable form. An example of an engagement letter for an agreed-upon assurance procedures engagement is set out in Appendix 3.

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- A13. It is in the interest of both the engaging party 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 engaging party and the form of any reports.
- A14. Matters that would be included in the engagement letter include:
- (a) a listing of the assurance procedures to be performed as agreed upon between the parties;
  - (b) identification of intended users, including a class of user, entitled to use the report of factual findings; and
  - (c) a statement that the distribution of the report of factual findings would be restricted to the engaging party, who has agreed to the procedures to be performed, and the intended users identified.

In addition, the assurance practitioner may consider attaching to the engagement letter a draft of the report of factual findings that will be issued, omitting the factual findings.

- A15. The listing of assurance procedures to be performed details the nature, timing and extent of assurance procedures in sufficient detail such that during the course of the engagement the assurance practitioner will not need to determine the procedures to be performed. If the assurance procedures cannot be precisely determined by the engaging party when agreeing the terms of engagement, then it is an indication that an assurance engagement may be required to meet the needs of users.
- A16. In an agreed-upon assurance procedures engagement, in which the assurance practitioner does not express a conclusion, it is the engaging party's responsibility to determine the procedures which will provide sufficient appropriate evidence to support their own or users conclusions. It is only appropriate for the assurance practitioner to select the procedures if they will be assessing the evidence to support a conclusion, provided in an assurance engagement.

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- A17. Not all intended users may be available to agree to the terms of engagement or the agreed-upon assurance procedures to be conducted. These intended users may still be specified in the letter of engagement where the assurance practitioner is satisfied that those users will understand the purpose for which the report of factual findings may be used. These intended users may include:
- (a) regulators or industry bodies which issue requirements for assurance procedures to be conducted and factual findings to be reported; and
  - (b) an identifiable class of users which are intended to receive the report of factual findings for a specified purpose.
- A18. 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 report of factual findings that will be issued.

**Planning (Ref: Para. 25-26)**

- A19. Planning in an agreed-upon assurance procedures engagement is restricted by the nature, timing and extent of assurance procedures as agreed in the terms of engagement. Therefore the assurance practitioner does not have the discretion to conduct alternative or additional procedures without obtaining the engaging party's agreement. 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.

**Performing the Engagement (Ref: Para. 35-37)**

- A20. The procedures applied in an engagement to perform agreed-upon assurance procedures may include:
- (a) inspection;
  - (b) observation;

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- (c) external confirmation;
- (d) re-calculation;
- (e) re-performance;
- (f) analytical review procedures, where those procedures are based solely on analysis against expectations defined in the terms of engagement; and
- (g) enquiry.

A21. Analytical review procedures are not conducted in an agreed-upon assurance procedures engagement unless the engaging party provides an expectation of recorded amounts or ratios on which the assurance practitioner may base the analytical review. The engaging party's expectations are defined in the procedures described in the terms of the engagement. It is necessary for the engaging party to provide the expectations as a basis for the analytical review so that the assurance practitioner does not use their professional judgement to develop expectations, which is only appropriate when conducting an assurance engagement.

**Reporting (Ref: Para. 38-46)**

- A22. In an agreed-upon assurance procedures engagement, the user assesses the factual findings reported alone or in combination with other information to draw their own conclusion.
- A23. Even though assurance is not provided by the assurance practitioner, the intended users are entitled to rely on the accuracy of the reported findings by virtue of the assurance practitioner's competence and skill in conducting the agreed-upon assurance procedures. The report of factual findings needs to describe the procedures conducted and findings in sufficient detail to enable the user to understand the nature, timing and extent of the work performed as well as the nature of the errors and exceptions identified. When the law or regulation prescribes the layout or wording of the assurance practitioner's report in a form or in terms that are significantly different from the requirements of ASAE 4400 and the assurance practitioner considers that additional explanation in the report of factual findings cannot mitigate possible misunderstanding, the auditor may consider including a statement in the report of factual findings that the agreed-upon procedures engagement is not conducted in accordance with ASAE 4400.

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- A24. The assurance practitioner's inability to conduct the agreed-upon assurance procedures may arise from:
- (a) circumstances beyond the control of the engaging party;
  - (b) circumstances relating to the nature or timing of the auditor's work; or
  - (c) limitations imposed by management.
- A25. An illustrative example of a report of factual findings, incorporating the elements set forth in paragraphs 39-45, is set out in Appendix 4.

**Conformity with International Standards on Assurance Engagements**

Except as noted below, ASAE 4400 conforms with International Standard on Related Services ISRS 4400, issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The main difference(s) between ASAE 4400 and ISRS 4400 are:

- ASAE 4400 is not limited to procedures regarding "financial information" whereas ISRS 4400 is limited to financial information.
- ASAE 4400 applies to "assurance procedures" whereas ISRS 4400 applies to "procedures of an audit nature". Whilst the terms differ, they can be taken to have the same meaning as indicated by the procedures listed in ISRS 4400 paragraph 16 which are equivalent to those listed in ASAE 4400 paragraph A21.
- ASAE 4400 applies to the "assurance practitioner", whereas ISRS 4400 applies to the "auditor". Whilst the terms differ, they can be taken to have the same meaning.
- The AUASB is of the view that independence of the assurance practitioner in carrying out assurance procedures and reporting factual findings is fundamental to the effective conduct of agreed-upon assurance procedures engagement, therefore ASAE 4400 requires the assurance practitioner to maintain independence. ISRS 4400 does not require the auditor to be independent, but requires the auditor to state in the report of factual findings if they are not independent.

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- ASAE 4400 includes requirements, which are additional to that contained in ISRS 4400, for the assurance practitioner to:
  - establish and maintain a system of quality control within the firm;
  - understand the needs and objectives of the intended users;
  - only accept an agreed-upon assurance procedures engagement if they are satisfied that the engagement is likely to meet the needs of users, the elements of an assurance engagement will not all be met and procedures only applicable to assurance engagements will not need to be conducted;
  - not be responsible for the sufficiency of the assurance procedures;
  - state in the terms of engagement that users are responsible for reaching any conclusions on the subject matter;
  - not need to determine or modify the procedures to be conducted;
  - limit planning to the procedures agreed in the terms of engagement;
  - not conduct a risk assessment or assess the findings;
  - take responsibility for quality control on the engagement and the work of others;
  - document matters with respect to compliance with ethical requirements, independence requirements, acceptance and continuance of client relationships and acceptance of the engagement;
  - request amended terms of engagement if alternative or further procedures are to be conducted;
  - not assess the findings or provide a conclusion or opinion;
  - restrict use of the report to intended users;

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- not to assert compliance with ASAE 4400 if the requirements are not met;
- not issue a modified report or emphasis of matter but instead report all errors or exceptions in the factual findings even if they are subsequently rectified;
- exclude wording from the report of factual findings which may indicate that assurance is being provided; and
- states in the report of factual findings that the responsibility for determining the adequacy of the agreed-upon assurance procedures is that of the engaging party.

Compliance with this Standard on Assurance Engagements ASAE 4400 enables compliance with ISRS 4400.

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**Appendix 1**

(Ref: Para. A8)

**Differentiating factors between agreed-upon assurance procedures engagements and assurance engagements**

| <b>Differentiating Factor</b>   | <b>Agreed-upon Assurance Procedures Engagement</b>                                     | <b>Assurance Engagement</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                  |
| Extent of assurance practitioner's professional judgement exercised in selecting procedures | None   | Professional Judgement exercised |
| Sufficiency and appropriateness of evidence assessed by:                                    | User   | Assurance practitioner           |
| Form and content of report  | Factual findings, no conclusion or explicit assurance provided                         | Conclusion providing assurance   |
| Reporting of procedures conducted   | Detail of the exact nature, timing and extent of all procedures conducted are reported | Summary of work performed        |

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| <b>Differentiating Factor</b> | <b>Agreed-upon Assurance Procedures Engagement</b>               | <b>Assurance Engagement</b>   |
|-------------------------------|--|---|
| Reporting of findings         | Detail of exact findings resulting from each procedure conducted | No detail of findings, unless a modified report is to be issued when the basis for modification is provided |

## **Appendix 2**

(Ref: Para. A9)

### **Examples of Differences in Scope between an Agreed-upon Assurance Procedures Engagement and an Assurance Engagement**

The following brief descriptions of engagements are intended to illustrate that engagements relating to the same subject matter may be scoped in the terms of engagement as an agreed-upon assurance procedures engagement providing no assurance or an assurance engagement depending on the needs of the engaging party and intended users. The scope provided, which would be reflected in the terms of engagement, are to be used as a guide only and will need to be adapted to the individual engagement requirements and circumstances.

| <b>Nature of engagement</b>        | <b>Purpose of engagement</b>   | <b>Scope of an Agreed-upon Assurance Procedures Engagement</b>   | <b>Scope of an Assurance Engagement</b>   |
|------------------------------------|--|--|---|
| 1. <b>Turnover Lease Agreement</b> | To assist parties to a lease agreement based on turnover in assessing compliance with the agreement. | <ul style="list-style-type: none"><li>• Agree gross turnover to underlying data;</li><li>• Recalculate adjusted turnover based on agreed</li></ul> | <ul style="list-style-type: none"><li>• Audit/review compliance with the turnover lease agreement to provide a reasonable/limited</li></ul> |

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| Nature of engagement           | Purpose of engagement   | Scope of an Agreed-upon Assurance Procedures Engagement  | Scope of an Assurance Engagement   |
|--------------------------------|---|--|--|
|                                |   | formula; and <ul style="list-style-type: none"> <li>• Recalculate the turnover rent payable under the lease agreement.</li> </ul>  | assurance conclusion as to whether the entity has complied, in all material respects, with the lease agreement over the period.  |
| <b>2. Management Agreement</b> | To assist the directors of each entity to fulfil their reporting requirements under management agreements with the managing entity. | <ul style="list-style-type: none"> <li>• Agree data from entities' income statements to the entities' trial balances, parent entity consolidation schedule and audited consolidated financial report.</li> </ul> | <ul style="list-style-type: none"> <li>• Audit/review compliance with the reporting requirements of the management agreement to provide a reasonable/limited assurance conclusion as to whether the entity has complied, in all material respects, with the management agreement over the period.</li> </ul> |

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| Nature of engagement          | Purpose of engagement  | Scope of an Agreed-upon Assurance Procedures Engagement  | Scope of an Assurance Engagement  |
|-------------------------------|--|--|---|
| 3. <b>Leave Provisions</b>    | To assist management assessment of whether leave provisions were calculated in accordance with corporate policy as a basis for negotiating the consideration for transferring staff. | <ul style="list-style-type: none"> <li>• Agree start date and employment terms for a random sample of X staff to employment contracts.</li> <li>• Agree leave taken to employee records.</li> <li>• Recalculate long service leave and annual leave provisions for X staff to be transferred as part of a novation agreement.</li> </ul> | <ul style="list-style-type: none"> <li>• Audit/review employee leave provisions to provide a reasonable/limited assurance conclusion as to whether leave balances are calculated, in all material respects, in accordance with corporate policy.</li> </ul> |
| 4. <b>Loan Securitisation</b> | To assist the engaging party and potential investors in determining the data on which to base the securitisation of a pool of loans.   | <ul style="list-style-type: none"> <li>• Select X loans.</li> <li>• Agree specified loan data to supporting documentation and check loan data against given criteria.</li> <li>• Recalculate total loan pool data.</li> </ul>  | <ul style="list-style-type: none"> <li>• Audit/review the loan pool to provide a reasonable/limited assurance conclusion as to whether the loan pool is reported, in all material respects, in accordance</li> </ul>  |

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| Nature of engagement           | Purpose of engagement   | Scope of an Agreed-upon Assurance Procedures Engagement   | Scope of an Assurance Engagement   |
|--------------------------------|---|---|--|
| 5. <b>Stocktake Procedures</b> | Assisting management to determine the value of stock on hand.   | <ul style="list-style-type: none"> <li>• Attend X sites, test count X stock items to stock count sheets.</li> <li>• Trace X stock count sheets to summary stock data.</li> <li>• Agree X stock items to inventory account and agree cost to supplier invoices.</li> </ul> | <p>with the agreed basis.</p> <ul style="list-style-type: none"> <li>• Audit/review stock at period end to provide a reasonable/limited assurance conclusion as to whether the value of stock is reported, in all material respects, in accordance with corporate policy.</li> </ul> |
| 6. <b>Debtors' balances</b>    | Assisting management to identify issues in debtors' collection. | <ul style="list-style-type: none"> <li>• Agree aged debtors to the trial balance at period end.</li> <li>• Agree the largest (at period end) X debtors to sales invoices.</li> <li>• Trace X randomly selected debtor balances to subsequent receipts.</li> </ul>         | <ul style="list-style-type: none"> <li>• Audit/review debtors and provision for doubtful debts to provide a reasonable/limited assurance conclusion as to whether debtors and provision for doubtful debts are presented fairly,</li> </ul>  |

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| Nature of engagement       | Purpose of engagement  | Scope of an Agreed-upon Assurance Procedures Engagement  | Scope of an Assurance Engagement   |
|----------------------------|--|--|--|
|                            |  | <ul style="list-style-type: none"> <li>• Itemise bad debt written off for the period with explanations provided by management.</li> <li>• Itemise customers on stop supply or COD.</li> <li>• Identify any debtor legal action.</li> <li>• Determine value and number of credit notes for the period.</li> <li>• Calculate debtors aging percentages at period end.</li> </ul> | in all material respects, in accordance with the agreed basis of accounting.   |
| <b>7. Accounts Payable</b> | Assisting management to assess the completeness of accounts payable. | <ul style="list-style-type: none"> <li>• Agree accounts payable general ledger listing to trial balance at period end.</li> <li>• Agree major supplier balances provided to trial</li> </ul>   | <ul style="list-style-type: none"> <li>• Audit/review the valuation of accounts payable at period end to provide a reasonable/limited</li> </ul> |

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| Nature of engagement  | Purpose of engagement  | Scope of an Agreed-upon Assurance Procedures Engagement  | Scope of an Assurance Engagement  |
|---|--|--|---|
|   |  | balance.<br><ul style="list-style-type: none"> <li>• Agree X balances (randomly selected) to supplier statements or confirmations.</li> <li>• For variances greater than X obtain client reconciliation and agree reconciling items to subsequent invoices, credit notes or payments.</li> </ul> | assurance conclusion as to whether accounts payable is valued, in all material respects, in accordance with corporate policy.   |
| <b>8. Controls to meet contractual obligations</b><br>(Data supplied by providers under confidentiality and privacy | To assist client in completing their certificate of compliance with respect to confidentiality and privacy agreements. | <ul style="list-style-type: none"> <li>• Agree list of users with access to restricted data to signed Confidentiality Statements.</li> <li>• Agree individual Confidentiality Statements to Confidentiality agreement.</li> <li>• Identify confidentiality</li> </ul>                            | <ul style="list-style-type: none"> <li>• Audit/review controls in place to comply with confidentiality and privacy agreements in order to provide a reasonable/limited assurance conclusion as to whether the controls are fairly described,</li> </ul> |

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| <b>Nature of engagement</b>                   | <b>Purpose of engagement</b> | <b>Scope of an Agreed-upon Assurance Procedures Engagement</b>  | <b>Scope of an Assurance Engagement</b>                                      |
|---|------------------------------|---|--|
| agreement requiring controls to protect data) |                              | training held over reporting period, percentage of users attended and average hours training attended per user. <ul style="list-style-type: none"> <li>• Trace data access log for X days to list of approved users.</li> </ul> | suitably designed and operating effectively throughout the reporting period. |

### **Appendix 3**

(Ref: Para. A13)

#### **Example of an Engagement Letter for an Agreed-upon Assurance Procedures Engagement**

The following is an example of an engagement letter for an agreed-upon assurance procedures engagement prepared in accordance with ASAE 4400. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this Standard on Assurance Engagements. It will need to be varied according to individual requirements and circumstances. It may be appropriate to seek legal advice that any proposed letter is suitable.

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To the appropriate representatives of management or those charged with governance of name of Entity [and name of other intended users as appropriate]:

*[The objective and scope of the engagement]*

You have requested that we conduct the agreed-upon assurance procedures specified below. We are pleased to confirm our acceptance and understanding of this agreed-upon assurance procedures engagement and the nature and limitations of the procedures we will conduct. Our engagement will be conducted with the objective of reporting factual findings resulting from each procedure for the purpose of [specify purpose].

*[The responsibilities of the assurance practitioner]*

We will conduct our engagement in accordance with Standard on Assurance Engagements ASAE 4400 *Agreed-upon Assurance Procedures to Report Factual Findings*. That standard requires that we comply with ethical requirements applicable to Other Assurance Engagements<sup>11</sup>, including independence, and plan and perform the agreed procedures to obtain factual findings. [If appropriate<sup>12</sup>: We will

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<sup>11</sup> If applicable, reference APES 110 Code of Ethics, Section 291.

<sup>12</sup> Modified independence requirements are only permitted under the ethical requirements applicable to other assurance engagements if the intended users of the report (a) are knowledgeable as to the purpose, subject matter information and limitations of the report and (b) explicitly agree to the application of the modified independence requirements.

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apply modified independence requirements agreed with you, which will consist of (describe level of independence to be applied).] The procedures which we will conduct will be restricted to those procedures agreed with you and listed below. Information acquired by us in the course of our engagement is subject to strict confidentiality requirements and will not be disclosed by us to other parties except as required or allowed for by law or professional standards, or with your express consent.

We have agreed to perform the following assurance procedures and report to you the factual findings resulting from our work:

[describe the nature, timing and extent of each assurance procedure to be performed, including specific reference, where applicable, to the identity of documents and records to be read, individuals to be contacted and parties from whom confirmations will be obtained.]

*[The responsibilities of management or those charged with governance and intended users (if appropriate)]*

Our agreed-upon assurance procedures will be conducted on the basis that [management and, where appropriate, those charged with governance and intended users] acknowledge and understand that:

- (a) they have responsibility for determining the adequacy or otherwise of the procedures agreed to be performed by us;
- (b) they have responsibility for determining whether the factual findings provided by us, in combination with any other information obtained, provide a reasonable basis for any conclusions which you or the intended users wish to draw on the subject matter;
- (c) they have responsibility to provide us with:
  - (i) access to all information of which the directors and management are aware that is necessary for the conduct of the assurance procedures agreed; and
  - (ii) unrestricted access to persons within the entity from whom we require co-operation in order to conduct the assurance procedures agreed.

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- (d) the procedures we will perform are solely to assist you [and name of intended users] in (state purpose). Our report of factual findings is not to be used for any other purpose and is solely for your [and name of intended users'] information.
- (e) the procedures that we will perform will not constitute a reasonable or limited assurance engagement in accordance with AUASB Standards and, consequently, no assurance will be expressed.

We look forward to full co-operation with your staff during our engagement.

*[Other relevant information]*

*[Insert other information, such as fee arrangements, billings and other specific terms as appropriate]*

*[Reporting]*

Our report of factual findings will consist of a detailed listing of the assurance procedures conducted and our findings in relation to each procedure, including any errors or exceptions identified regardless of whether those errors or exceptions have since been rectified.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our agreed-upon assurance procedures engagement including the specific procedures which we have agreed will be performed and our respective responsibilities.

Yours faithfully,

(signed)

.....

Name and Title

Date

Acknowledged on behalf of [name of Entity] by

(signed)

**Proposed Standard on Assurance Engagements ASAE 4400**  
***Agreed-upon Assurance Procedures to Report Factual Findings***  
**(Revision of AUS 904)**

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.....

Name and Title

Date

[Acknowledged on behalf of [name of Intended User] by

(signed)

.....

Name and Title

Date]

## **Appendix 4**

(Ref: Para. A24)

### **Example of a Report of Factual Findings in Connection with Accounts Payable**

#### **REPORT OF FACTUAL FINDINGS**

To [appropriate addressee]

#### **Report of Factual Findings**

We have performed the assurance procedures agreed with you and [name of any intended users party to the terms of engagement] to report factual findings for the purpose of assisting you [and [name of other intended users or class of intended users]] in assessing, in combination with other information obtained by you, the accuracy of accounts payable as at [date]. The assurance procedures performed are detailed in the terms of the engagement of [date] and described below with respect to the accounts payable of [entity] as of [date], set forth in the attached schedules [describe and reference the schedules (not shown in this example)].

#### **[Management / Those Charged with Governance]’s Responsibility for the Procedures Agreed**

[Management / Those Charged with Governance and any intended users party to the terms of engagement] are responsible for the adequacy or otherwise of the procedures agreed to be performed by us. You and [name of other intended users or class of intended users] are responsible for determining whether the factual findings provided by us, in combination with any other information obtained, provide a reasonable basis for any conclusions which you or other intended users wish to draw on the subject matter.

#### **Assurance Practitioner’s Responsibility**

Our responsibility is to report factual findings obtained from conducting the assurance procedures agreed. We conducted the engagement in accordance with Standard on Assurance Engagements ASAE 4400 *Agreed-upon Assurance Procedures to Report Factual Findings*. We have complied with the ethical requirements applicable to Other Assurance Engagements<sup>13</sup>,

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<sup>13</sup> If applicable, reference APES 110 Code of Ethics, Section 291.

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including independence [if applicable: except that we applied modified independence requirements as agreed with you in the terms of the engagement consisting of (describe level of independence applied)].

Because the above procedures do not constitute either an audit or a review in accordance with AUASB Standards, we do not express any conclusion and provide no assurance on the accounts payable of [entity] as of [date]. Had we performed additional procedures or had we performed an audit or a review of the accounts payable in accordance with AUASB Standards, other matters might have come to our attention that would have been reported to you.

**Factual Findings<sup>14</sup>**

The assurance procedures were performed solely to assist you in evaluating the validity of the accounts payable. The procedures conducted and the factual findings obtained are as follows:

| <b>Assurance Procedure Conducted</b>   | <b>Factual Findings</b>   | <b>Errors or exceptions identified</b> |
|--|---|--|
| 1 We obtained and checked the addition of the trial balance of accounts payable as at [date] prepared by [entity], and we compared the total to the balance in the related general ledger account.     | We found the addition to be correct and the total amount to be in agreement.  | None                                   |
| 2 We compared the attached schedule (not shown in this example) provided by [entity] of major suppliers and the amounts owing at [date] to each of the related names and amounts in the trial balance. | We found the amounts compared to be in agreement except for exceptions noted. | <i>[Detail exceptions]</i>             |
| 3 For X suppliers randomly selected from the attached schedule we obtained suppliers' statements or requested suppliers to confirm balances owing at [date].   | We found there were suppliers' statements for all such suppliers.             | None                                   |

<sup>14</sup> The assurance practitioner may choose instead to present the table of factual findings as an attachment to the report, particularly if it is lengthy.

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| <b>Assurance Procedure Conducted</b>  | <b>Factual Findings</b>  | <b>Errors or exceptions identified</b> |
|---|--|--|
| 4 We compared such statements or confirmations to the amounts referred to in 2. For amounts which did not agree, we obtained reconciliations from [entity]. For reconciliations obtained, we identified and listed outstanding invoices, credit notes and cheques, each of which was greater than \$XXX. We located and examined such invoices and credit notes subsequently received and cheques paid and we ascertained whether they should in fact have been listed as outstanding on the reconciliations. | We found the amounts agreed, or with respect to amounts which did not agree, we found [entity] had prepared reconciliations and that the credit notes, invoices and cheques over \$XXX were appropriately listed as reconciling items except for exceptions noted. | <i>[Detail exceptions]</i>             |

[Where there has been a limitation of scope such that certain procedures could not be conducted insert: The following procedures included in the terms of engagement could not be conducted for the reasons set out below:]

| <b>Assurance Procedure Unable to be Conducted</b> | <b>Reasons Procedures was Unable to be Conducted</b> |
|---|--|
| <i>[Detail procedure in terms of engagement]</i>  | <i>[Detail reasons]</i>                              |

**Restriction of Distribution and Use of Report**

This report is solely for the use of [entity]’s and [intended users identified in the terms of engagement] for the purpose set out above. As the intended user of our report, it is for you and other intended users to assess both the procedures and our factual findings to determine whether they provide, in combination with any other information you have obtained, a reasonable basis for any conclusions which you wish to draw on the subject matter. As required by ASAE 4400, this report is restricted to those parties that have agreed the procedures to be performed with us and other intended users

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identified in the terms of engagement (since others, unaware of the reasons for the procedures, may misinterpret the results). Accordingly, we expressly disclaim and do not accept any responsibility or liability to any party other than [company full name, name of intended users and name of class of users] for any consequences of reliance on this report for any purpose.

[Assurance Practitioner's Signature]

[Date of the report of factual findings]

[Assurance Practitioner's Address]

|  |
|--|
| <b>Table of Differences – ASAE 4400 and Existing AUS 904</b> |
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**Underlying Standard**

AUS 904 *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*, which conforms with existing ISRS 4400 *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*, is used as the underlying standard for the purpose of re-drafting this proposed ASAE.

**Summary of from the Main differences – ASAE 4400 and Existing AUS 904**

The table below details the main differences between this proposed ASAE and the existing AUS 904.

**Requirements in ASAE 4400 not in existing AUS 904**

| Item #   | ED Para. # | ASAE 4400 Requirements  | Commentary  |
|--|------------|---|---|
| <b>Application</b>   |            |   |   |
| 1.   | 1          | This Standard on Assurance Engagements (ASAE) applies to agreed-upon assurance procedures engagements to be conducted by an assurance practitioner, where factual findings are reported but no conclusion or opinion is expressed and no explicit assurance is provided by the assurance practitioner. The intended users draw their own conclusions based on the factual findings reported combined with any other information they have obtained. | Application is not limited to financial information as in AUS 904.  |
| <b>Ethical Requirements Relating to an Agreed-upon Assurance Procedures Engagement</b> |            |   |   |
| 2.   | 15.        | The assurance practitioner's firm shall establish and maintain its system of quality control for agreed-upon assurance procedures engagements as if the engagement were an assurance engagement.  | New requirement, equivalent to ASA 220 <i>Quality Control for an Audit of a Financial Report and Other Historical Financial Information</i> . |
| <b>Acceptance of an Agreed-upon Assurance Procedures Engagement</b>                    |            |   |   |
| 3.   | 17         | The assurance practitioner shall obtain an understanding of the needs and objectives of the intended users, including a class of intended users, of the assurance practitioner's report of factual findings and the purpose for which that report will be used.   | New requirement – to ensure engagement is appropriate in the circumstances.   |
| 4.   | 18         | Even though the practitioner assesses the needs of users in accepting an agreed-upon assurance procedures engagement, the assurance practitioner is not   | New requirement – to highlight differences between agreed-upon assurance procedures and assurance   |

| Item # | ED Para. # | ASAE 4400 Requirements   | Commentary  |
|--------|------------|--|---|
|        |            | responsible for the sufficiency of the assurance procedures to be conducted.   | engagements.  |
| 5.     | 19         | Where a representative body specifies the agreed-upon assurance procedures to be conducted to meet the needs of a class of intended users, then the assurance practitioner shall be satisfied that the body does represent the class of users for whom the engagement is intended.   | New requirement – the report of factual findings is to be restricted to the use of intended users only, but where there is a class of users, not all intended users will be a party to the engagement terms. This requirement is directed at ensuring that the needs of the intended users are appropriately addressed. |
| 6.     | 20         | <p>The assurance practitioner shall not accept an agreed-upon assurance procedures engagement if, in the professional judgement of the assurance practitioner:</p> <ul style="list-style-type: none"> <li>a. the provision of factual findings alone which provides no assurance is unlikely to meet the needs of the intended users; or</li> <li>b. the circumstances of the engagement indicate that the intended users are likely to construe the outcome of the engagement as providing an assurance conclusion about the subject matter; or</li> <li>c. all of the elements of an assurance engagement are met; or the engagement has no rational purpose; or</li> <li>d. the circumstances of the engagement indicate that it will be necessary for the assurance practitioner to do any of the following:                             <ul style="list-style-type: none"> <li>i. conduct a risk assessment in order to determine the procedures to be undertaken;</li> <li>ii. determine the sufficiency of assurance procedures to be conducted;</li> <li>iii. evaluate the findings in order to determine the sufficiency and appropriateness of the evidence gathered; or</li> <li>iv. reach a conclusion or form an opinion based on the evidence gathered.</li> </ul> </li> </ul> | New requirement – to ensure engagement is appropriate in the circumstances and to highlight differences between agreed-upon assurance procedures and assurance engagements.   |

| Item #  | ED Para. # | ASAE 4400 Requirements   | Commentary  |
|---|------------|--|---|
| <b>Agreeing on the Terms of the Agreed-upon Assurance Procedures Engagement</b> |            |  |   |
| 7.  | 22         | The terms of engagement shall state that, whilst reliance may be placed on the factual findings, no assurance will be provided in the assurance practitioner's report. Consequently, in order to reach a conclusion regarding the subject matter users must conduct their own assessment of the findings, combined with other information available to them and if necessary conduct further procedures in order to obtain sufficient appropriate evidence on which to base any such conclusion. | New requirement – to highlight to the engaging party that unlike an assurance engagement a conclusion is not provided and so must be reached by the user.                   |
| 8.  | 23         | 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 assurance practitioner will not be required to exercise their professional judgement in determining or modifying the procedures to be conducted.  | New requirement - to ensure engagement is appropriate in the circumstances and to highlight differences between agreed-upon assurance procedures and assurance engagements. |
| 9.  | 24         | When conducting an agreed-upon assurance procedures engagement, if the assurance practitioner is unable to conduct the exact nature, timing or extent of procedures agreed, but alternative procedures can be performed, modified terms of engagement shall be agreed with the engaging party prior to conducting those alternative procedures.  | New requirement - to ensure engagement is appropriate in the circumstances and to highlight differences between agreed-upon assurance procedures and assurance engagements. |
| <b>Planning</b>   |            |  |   |
| 10.   | 26         | The engagement plan for an agreed-upon assurance procedures engagement 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.   | New Requirement to clarify that assurance practitioner does not conduct alternative assurance procedures.   |
| <b>Risk Assessment</b>  |            |  |   |
| 11.   | 27         | The assurance practitioner does not conduct a risk assessment for an agreed-upon assurance procedures engagement, as the nature, timing and extent of procedures to be conducted are agreed with the engaging party rather than determined by the assurance practitioner in response to assessed risks.  | New Requirement – to clarify that risk assessments are only conducted in an assurance engagement.   |

| Item #                          | ED Para. # | ASAE 4400 Requirements  | Commentary  |
|---------------------------------|------------|---|---|
| <b>Materiality</b>              |            |   |   |
| 12.                             | 28         | In an agreed-upon assurance procedures engagement the assurance practitioner does not apply materiality to assess the factual findings to determine whether the subject matter information is free of material misstatement.  | New Requirement – to clarify that materiality does not need to be applied to the findings in an agreed-upon assurance procedures engagement as the findings are not assessed. |
| <b>Quality Control</b>          |            |   |   |
| 13.                             | 29         | The assurance practitioner shall take responsibility for the overall quality of the agreed-upon assurance procedures engagement and shall apply the firm’s quality control procedures applicable to Other Assurance Engagements.  | New requirement – consistent approach to ASA 220  |
| 14.                             | 30         | Throughout the engagement, the assurance practitioner shall remain alert, through observation and making enquiries as necessary, for evidence of non-compliance with relevant ethical requirements, including independence, by members of the engagement team. If matters come to the assurance practitioner’s attention that indicate that members of the engagement team have not complied with relevant ethical requirements, the assurance practitioner shall determine the appropriate action. | New requirement – consistent approach to ASA 220, para. 9-10  |
| 15.                             | 31         | The assurance practitioner shall be satisfied that the engagement team, and any experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to perform the agreed-upon assurance procedures in accordance with ASAE 4400.  | New requirement – consistent approach to ASA 220, para. 14.   |
| <b>Using the Work of Others</b> |            |   |   |
| 16.                             | 32         | The assurance practitioner shall take responsibility for the direction, supervision and performance of the engagement and the accurate reporting of factual findings.   | New requirement – consistent approach to ASA 220, para. 15  |
| 17.                             | 33         | When the assurance practitioner uses the work of another assurance practitioner, internal auditors or an expert the assurance practitioner shall evaluate the findings communicated and the adequacy of their work, including their objectivity and technical competence in conducting the procedures.  | New requirement – consistent approach to ASA 610 and ASA 620  |
| <b>Documentation</b>            |            |   |   |

| <b>Item #</b>                    | <b>ED Para. #</b> | <b>ASAE 4400 Requirements</b>   | <b>Commentary</b>   |
|----------------------------------|-------------------|---|---|
| 18.                              | 34                | The assurance practitioner shall document: <ul style="list-style-type: none"> <li>a. issues identified with respect to compliance with relevant ethical requirements and how they were resolved;</li> <li>b. conclusions on compliance with independence requirements for ‘other assurance engagements’;</li> <li>c. conclusions reached regarding the acceptance and continuance of client relationships and acceptance of the agreed-upon assurance procedures engagement;</li> <li>d. the procedures conducted and the factual findings obtained as identified in the agreed-upon assurance procedures report; and</li> </ul> evidence that the engagement was carried out in accordance with ASAE 4400 and the terms of the engagement. | New requirement – equivalent documentation requirements to ASA 230, with the exception of subparagraphs 34(d) and (e) which are equivalent to AUS 904.18. |
| <b>Performing the engagement</b> |                   |   |   |
| 19.                              | 36                | When conducting the assurance procedures, if the nature, timing and extent of the procedures to be conducted are not adequately specified in the terms of engagement, the assurance practitioner shall request amended terms of engagement so that they do not need to determine the procedures to be conducted. The assurance practitioner does not conduct alternative or further assurance procedures unless requested by the engaging party and agreed in amended terms of engagement.  | New requirement – to highlight differences between agreed-upon assurance procedures and assurance engagements.  |
| 20.                              | 37                | If the engaging party’s requirements alter during the course of the engagement and require the assurance practitioner to draw conclusions from the findings then a new engagement will need to be agreed for the provision of assurance and conducted in accordance with applicable AUASB standards, including ensuring that the elements of an assurance engagement are met.   | New requirement – to highlight differences between agreed-upon assurance procedures and assurance engagements.  |

| Item #           | ED Para. # | ASAE 4400 Requirements   | Commentary   |
|------------------|------------|--|--|
| <b>Reporting</b> |            |  |  |
| 21.              | 38         | The assurance practitioner provides a report of factual findings, but does not evaluate those findings in order to draw a conclusion or form an opinion which provides explicit assurance. If the assurance practitioner is reporting on an agreed-upon assurance procedures engagement in conjunction with an assurance engagement, the report of factual findings must be clearly differentiated from the assurance report.  | New requirement – to highlight differences between agreed-upon assurance procedures and assurance engagements.   |
| 22.              | 39         | The assurance practitioner is unable to express a conclusion or opinion in an agreed-upon assurance procedures engagement as the assurance practitioner has not conducted a risk assessment, responded to assessed risks by determining the procedures to be conducted or assessed whether sufficient appropriate evidence has been obtained as a reasonable basis for expressing a conclusion.  | New requirement – to highlight differences between agreed-upon assurance procedures and assurance engagements.   |
| 23.              | 40         | Use of the report should be restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as intended users in the engagement letter since others, unaware of the reasons for the procedures, may misinterpret the results.   | Elevation of guidance in AUS 904, para. 06.  |
| 24.              | 41         | The intended users assess for themselves the findings reported by the assurance practitioner and draw their own conclusions from the assurance practitioner's work with respect to the subject matter. In order to draw a conclusion, users will need to assess the factual findings reported by the assurance practitioner along with information from other sources and ensure that the evidence which they provide is sufficient and appropriate to provide a basis for any conclusion they may reach. The intended users of the report are entitled to rely on the professional competence and expertise of the assurance practitioner in conducting the procedures effectively and reporting the findings accurately. | Elevation of guidance in AUS 904, para. 05 and new requirement.  |
| 25.              | 43         | If the assurance practitioner is required by law or regulation to use a specific layout or wording for the report of factual findings, the report of factual findings shall refer to ASAE 4400 only if the assurance practitioner's report includes, at a minimum, each of the elements in the preceding paragraph.  | New requirement – to allow for circumstances where law or regulation prescribe the reporting format and content. |
| 26.              | 44         | If law or regulation of the relevant jurisdiction prescribes the layout or wording   | New requirement – to allow for circumstances where   |

| Item # | ED Para. # | ASAE 4400 Requirements   | Commentary  |
|--------|------------|--|---|
|        |            | <p>of the assurance practitioner’s report in a form or in terms which are significantly different from the requirements of ASAE 4400. In these circumstances the assurance practitioner shall evaluate:</p> <ul style="list-style-type: none"> <li>a. whether users might misunderstand the factual findings reported and the fact that no assurance is provided; and, if so,</li> <li>b. whether additional explanation in the report of factual findings can mitigate possible misunderstanding.</li> </ul> <p>If the assurance practitioner considers that additional explanation in the auditor’s report cannot mitigate possible misunderstanding, the auditor shall not accept the engagement unless required by law or regulation to do so. As an agreed-upon procedures engagement conducted in accordance with such law or regulation does not comply with ASAE 4400, the auditor shall not include any reference in the report of factual findings to the engagement having been conducted in accordance with ASAE 4400.</p> | <p>law or regulation prescribe a reporting format and content which does not conform to ASAE 4400.</p>                          |
| 27.    | 45         | <p>The assurance practitioner shall not issue modifications or an emphasis of matter in a report of factual findings as no conclusion or opinion is expressed. Nevertheless the following matters, if applicable, are reported as part of the factual findings:</p> <ul style="list-style-type: none"> <li>a. errors or exceptions identified as a result of the procedures conducted, regardless of whether they were subsequently rectified by the entity; and</li> <li>b. inability of the assurance practitioner to conduct any of the agreed-upon assurance procedures.</li> </ul> <p>If the assurance practitioner is aware that an error or exception identified has been substantially rectified, the fact that it has been rectified may be included in the report.</p>   | <p>New requirement – to clarify how to deal with errors, exceptions and an inability to conduct the agreed-upon procedures.</p> |
| 28.    | 46         | <p>The report of factual findings for an agreed-upon assurance procedures engagement shall be clearly distinguished from an assurance report in that it shall not contain:</p>   | <p>New requirement – to distinguish a report of factual findings from an assurance report.</p>                                  |

| <b>Item #</b> | <b>ED Para. #</b> | <b>ASAE 4400 Requirements</b>   | <b>Commentary</b> |
|---------------|-------------------|---|-------------------|
|               |                   | <ul style="list-style-type: none"> <li>a. statement of compliance with AUASB Standards applicable to assurance engagements, except for reference to ASAE 4400;</li> <li>b. inappropriate use of the terms “assurance”, “audit”, “review”, “opinion” or “conclusion”; or</li> <li>c. any statement that could reasonably be mistaken for a conclusion designed to enhance the degree of confidence of intended users about the outcome of the evaluation or measurement of a subject matter against criteria.</li> </ul> |                   |