



# Board Meeting Summary Paper

**Subject:** Agreed-upon Assurance Procedures to Report Factual Findings

**Date:** 22 February 2011

<b>AUASB AGENDA ITEM NO. 8</b>
<b>Meeting Date: 28 February 2011</b>

**Action Required**

**For Information Purposes Only**

## Agenda Item Objectives

To agree the principal amendments to be made in response to the ED comments received on exposure of proposed ASAE 4400 *Agreed-upon Assurance Procedures to Report Factual Findings*.

## Background

ED 03/10 of proposed ASAE 4400 (attached as Agenda Item 8.2) was issued on 9 December 2010 with an extended comment period ending on 8 February 2011. Respondents were invited to comment on the exposure draft and to respond to 8 specific questions.

The AUASB submitted a Preliminary Impact Assessment to the Office of Best Practice Regulation (OBPR) for consideration of the regulatory impact of issuing ASAE 4400.

## Matters to Consider

### 1. ED Comments

Comments were received from 8 respondents on ED 03/10. An analysis of the comments is presented as Agenda Item 8.1.

#### *Supportive Comments*

The general response was supportive of updating and reissuing a standard to replace AUS 904 *Engagements to Perform Agreed-upon Assurance Procedures*. Respondents were unanimous in their support of the standard, as currently drafted, in the following respects:

- There would be no additional significant costs for assurance practitioners or the business community for compliance with this proposed ASAE 4400, with the exception of one respondent who stated that “*There will be additional costs incurred to obtain an understanding of the needs and objectives of the users, and the purpose for which the report will be used*”. Several respondents outlined benefits

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of the proposed standard arising from the more detailed and clarified requirements and guidance regarding the nature of an agreed-upon procedures engagement to ensure that this type of engagement is only provided when appropriate to do so.

- It is not expected to cause any significant public interest matters.
- The practitioner merely exercises professional competence and skill in conducting the procedures agreed and does not exercise professional judgement to conduct agreed procedures, as they would in an audit or review. Respondents did agree that professional judgement would need to be exercised in accepting the engagement. (See responses to Question 5)
- In an agreed-upon assurance procedures engagement the assurance practitioner does not assess: (a) the adequacy of the procedures to be conducted; (b) risk; or (c) the findings. Although it was acknowledged that the practitioner may have input into the engaging party's determination of the procedures to be performed. (See responses to Question 6)
- The factual findings reported do not constitute a conclusion provided by the practitioner. This was agreed with the exception of one respondent who stated that: "*We believe that the factual findings will be seen as being the practitioner's conclusions even though the actual report states that "...no assurance is expressed."*". (See responses to Question 7)
- Users rely on the factual findings reported based on the practitioner's competence and skill in conducting the procedures, as no assurance is provided by the practitioner. (See responses to Question 8)

### ***Issues to be Addressed***

A number of issues were raised by respondents, in addition to issues arising from the questions posed in the exposure draft. These additional issues are detailed in Agenda Item 8.1 under Exhibit 1: General Comments. The responses to each questions raised in the exposure draft are detailed in Agenda Item 8.1 under Exhibit 2: Responses to Specific Questions.

Respondents also raised comments in relation to specific paragraphs which are detailed in Agenda Item 8.1 under Exhibit 3: Comments on Specific Paragraphs. These comments were constructive and we recommend amending the draft standard to address the majority of these comments on specific paragraphs. Where comments are not proposed to be addressed the reasons are set out in Agenda Item 8.1.

The key issues of concern raised are outlined below for the Board's consideration:

#### **A. Assurance or Related Services Standard (Exhibit 1, Issue 1)**

Five respondents expressed concern regarding the confusion which naming this pronouncement a Standard on Assurance Engagements (ASAE) rather than a Standard on Related Services (ASRS). Respondents felt that naming it an assurance standard coupled with the repeated references to assurance practitioners and assurance procedures made it difficult to clarify that in fact no assurance was being provided.

***Proposed response:*** We recommend that the pronouncement be labelled as an ASRS.

#### **B. Assurance Procedures (Exhibit 2, Question 4)**

Respondents were unanimous in their view that use of the term "assurance procedures" was likely to cause confusion as these procedures likely to be misunderstood as providing assurance. Several respondents considered that inherent in the conduct of "assurance procedures" was the practitioner's selection of the nature, timing and extent of those procedures which was counter to the fact that these

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engagements were to provide no assurance. It was noted that the existing standard AUS 904 and the international equivalent ISRS 4400 refer to “procedures of an audit nature” which may be a more accurate description. Several respondents contended that not all procedures are necessarily “procedures of an audit nature” perhaps just the majority.

*Proposed response:* We recommend replacement of references to “assurance procedures” with simply “procedures” including in the pronouncement title. Consideration of defining the procedures as “procedures of an assurance nature”. Alternatively, if describing the procedures as “assurance procedures”, providing a clearer definition which precludes provision of assurance or implying assurance.

#### C. Applicability to Assurance Practitioners (Exhibit 1, Issue 5)

Two respondents provided opposing views on whether the standard should be limited in application to assurance practitioners or should apply to all practitioners. One respondent considered that using the term assurance at all would lead to confusion and that as other practitioners could feasibly conduct these engagements it should apply to all practitioners. The opposing concern was that many engagements are conducted by other practitioners which could be inappropriately captured by the standard and that in fact paragraph 2 should be deleted so that it is not applied by other practitioners.

*Proposed response:* We recommend retaining application to assurance practitioners as the intention of the standard is to differentiate engagements which do not provide assurance from those which provide assurance. The greatest area of potential confusion is where assurance practitioners are conducting agreed-upon procedures. We do not consider that the standard should be too far reaching as it would not be appropriate for it to be mandatory for all practitioners conducting any types of procedures. We recommend retaining paragraph 2 which allows other practitioners to apply the standard as it is not inappropriate for other practitioners to conduct these type of procedures.

#### D. Independence (Exhibit 2, Question 3)

Five out of seven respondents opposed the application of independence requirements to agreed-upon procedures engagements. Those opposing independence considered this requirement to be new, whereas in fact independence has been required for these engagements since at least July 2002 when AUS 904 was issued (see paragraph AUS 904.07). Whilst we acknowledge that independence is not required by ISRS 4400, nevertheless ISRS 4400 does require a statement to be included in the report if the practitioner is not independent.

*Proposed response:* We recommend retaining an independence requirement equivalent to that applicable to “other assurance engagements”, which is not as onerous as independence required for audits or reviews of financial reports. In practice the value of conducting procedures of an assurance nature is hampered by a lack of independence. Nevertheless should independence be considered unnecessary the Code of Ethics allows for those requirements to be modified as long as intended users agree to that modification. As lack of independence must be reported under ISRS 4400, the outcome should in fact be quite similar in practice under the proposed standard and the international standard.

#### E. Use of the term “explicit assurance” (Exhibit 1, Issue 4)

Two respondents were concerned that by stating that explicit assurance is not provided, it suggested that implicit assurance was being provided. All respondents were very clear and unanimous that no assurance was provided in an agreed-upon procedures engagement (see responses to Question 8).

*Proposed response:* We recommend deleting the term “explicit” so that it is clear that no assurance of any kind is provided.

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## 2. Regulatory Impact

The OBPR have assessed the proposed changes, which would result from replacement of AUS 904 with ASAE 4400 as minor nature and require no further analysis (in the form of a Regulation Impact Statement).

### AUASB Technical Group Recommendations

The Technical Group recommends redrafting the pronouncement as ASRS 4400 *Agreed-upon Procedures Engagements to Report Factual Findings* with amendments as outlined above. These amendments may be presented to the Board in April for approval.

### Material Presented

Agenda Item 8	Board Meeting Summary Paper
Agenda Item 8.1	Comments Received and Proposed Disposition on Exposure Draft 03/10 of ASAE 4400 Agreed-upon Assurance Procedures Engagements to Report Factual Findings
Agenda Item 8.2	ED 03/10 of proposed ASAE 4400 <i>Agreed-upon Assurance Procedures to Report Factual Findings</i> (December 2010)
Agenda Item 8.3	Submission from ACAG received 8/2/11 (electronic)
Agenda Item 8.4	Submission from PricewaterhouseCoopers Australia received 8/2/11 (electronic)
Agenda Item 8.5	Submission from KPMG received 9/2/11 (electronic)
Agenda Item 8.6	Submission from Deloitte received 10/2/11 (electronic)
Agenda Item 8.7	Submission from APESB received 14/2/11 (electronic)
Agenda Item 8.8	Submission from Grant Thornton received 17/2/11 (electronic)
Agenda Item 8.9	Submission from Joint Accounting Bodies received 17/2/11 (electronic)
Agenda Item 8.10	Submission from Ernst & Young received 21/2/11 (electronic)

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### Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Agree title of proposed standard	Board decision	AUASB	28 February 2011	Pending
2.	Agree nature of pronouncement	Board decision	AUASB	28 February 2011	Pending
3.	Agree key amendments for finalisation of standard	Board decision	AUASB	28 February 2011	Pending

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