

8 February 2011

Ms Merran Kelsall
The Chairman
Auditing and Assurance Standards Board
PO Box 204
Collins Street West
Melbourne VIC 8007

Dear Ms Kelsall

**ED 03/10 PROPOSED STANDARD ON ASSURANCE ENGAGEMENTS
ASAE 4400 AGREED-UPON ASSURANCE PROCEDURES TO REPORT
FACTUAL FINDINGS (REVISION OF AUS 904)**

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

ACAG is supportive of the development of a revised standard for agreed-upon procedures engagements and overall we are supportive of the proposed ASAE 4400.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely



Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

PROPOSED STANDARD ON ASSURANCE ENGAGEMENTS ASAE 4400
AGREED-UPON ASSURANCE PROCEDURES TO REPORT FACTUAL FINDINGS
(REVISION OF AUS 904)

ACAG provides the following comments in response to specific questions raised by the AUASB.

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

ACAG believes the proposed standard clarifies requirements that AUS 904 *Engagements to Perform Agreed-upon Procedures* did not adequately address. For example, laws and regulations often dictate the layout or wording for the reports of factual findings. Paragraphs 43 and 44 will benefit assurance practitioners in handling these situations.

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 (paragraph 17).

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

In our opinion, there are no significant public interest matters to be raised.

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?

Requiring adherence to the independence requirements applicable to 'Other Assurance Engagements' is unlikely to create any additional costs.

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?

ACAG believes that stakeholders are likely to misunderstand the term "assurance procedures".

Including this proposed standard as an ASAE creates an inconsistency with the *Foreword to AUASB Pronouncements*. Paragraph 24 of the *Foreword* states that 'ASAEs are to be applied to assurance engagements dealing with subject matters other than historical financial information', but agreed upon procedures are clearly not proposed to be assurance engagements under ASAE 4400.

Granted paragraphs 4 to 9 of the ED differentiate between assurance and non-assurance engagements and explain that the standard refers to assurance procedures, but agreed-upon procedures are not assurance engagements. However, this is still likely to be confusing to various stakeholders.

ACAG believes it would be better for the Board to follow the IAASBs approach where they have deliberately separated their standard from the ISAEs.

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?***

ACAG believes the proposed standard also requires professional judgement when deciding whether to accept the engagement (paragraph 20) and when agreeing to the terms of the engagement (paragraph 23). If this judgement is exercised the actual conduct of the agreed upon procedures should not require professional judgement to be exercised (paragraph 26). The assurance practitioner should be merely completing the agreed-upon procedures. Otherwise, the engagement may no longer be agreed-upon procedures.

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

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

ACAG believes that in agreeing to the terms of the engagement the intended users are in the best position to determine the adequacy of the procedures to be performed, as they would know what extent of evidence is sufficient for their purposes.

ACAG agrees that the assurance practitioner should not need to assess the risk, the findings nor the adequacy of procedures for an agreed-upon procedures engagement. However, if the findings could impact on the audit of the general purpose financial statements of the same entity then this knowledge should be utilised.

7. ***Do the factual findings reported constitute a conclusion provided by the practitioner?***

No, the users of the report should draw their own conclusions.

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 practitioner's competence and skill in conducting the procedures should be the primary basis that the user relies upon, as the practitioner provides no assurance. ACAG agrees with this approach.

Other Comments

- To comply with paragraph 20(a), the assurance practitioner needs to use professional judgement to determine whether or not provision of factual findings alone is unlikely to meet the needs of the intended users. However, paragraph 18 states 'the assurance practitioner is not responsible for the sufficiency of the assurance procedures to be conducted'. Additional guidance may be helpful to clarify that the determination in paragraph 20(a) is at the engagement level, i.e. agreed-upon procedures versus assurance engagement, and does not involve an assessment of the actual procedures to be performed.
- Paragraph 44 should be amended to read "Law or regulation of the relevant jurisdiction may prescribe the layout of 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....."
- We recommend the standard provide for the assurance practitioner to withdraw from an engagement if, during the course of the engagement, circumstances emerged that if known prior to commencing the engagement would have precluded the assurance practitioner from accepting the engagement.
- Update the footnote on page 21 as APES 110 has been issued.
- A11 and A14 appear to cover the same topic and may be better presented together or one after the other before the reference to the example engagement letter in Appendix 3.
- A22 merely repeats what is already covered in paragraph 41 rather than adding any additional guidance.
- The tables and appendices are useful.