



## **Attachment to Board Meeting Summary Paper**

Subject: **Specified Assurance Procedures – Issues Paper**

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## **ATTACHMENT 1**

### **1. Elements of assurance and agreed-upon procedures engagements**

An agreed upon procedures (AUP) engagement is presently defined in the AUASB Glossary as:

“An engagement in which an auditor is engaged to carry out those procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings. The recipient of the report form their own conclusions from the report by the auditor. The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results.”

AUS 904 *Engagements to perform agreed-upon procedures* clarifies that “as the auditor provides a report of the factual findings of agreed-upon procedures, no assurance is expressed”. In contrast an assurance engagement is defined in the *Framework for Assurance Engagements* (Framework, paragraph 8)) 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”.

Therefore the key difference between AUP and assurance engagements is whether a conclusion is expressed. Whilst assurance engagements require the existence of another intended user other than the responsible party which, with the assurance practitioner, form a three party relationship, the existence of other intended users does not preclude the conduct of an AUP engagement. In any event, this criteria is not difficult to meet as the responsible party and the other intended users may be from the same entity (Framework, paragraph 23)

The Framework identifies the following as being the elements of an assurance engagement (paragraph 21):

- A three party relationship involving an assurance practitioner, a responsible party, and intended users
- An appropriate subject matter
- Suitable criteria
- Sufficient appropriate evidence; and
- A written assurance report in the form appropriate to a reasonable assurance engagement or a limited assurance engagement.

The three party relationship and the written assurance report in the appropriate form (i.e. containing a conclusion) form part of the definition of an assurance engagement and have been discussed

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above. The appropriateness of the subject matter, suitability of the criteria and the sufficiency and appropriateness of the evidence are assessed by the assurance practitioner as part of the engagement, and as such form part of the requirements when conducting an assurance engagement. Whilst preliminary knowledge may indicate that these three elements will not be met and preclude acceptance of the engagement (ASAE 3000, paragraphs 16 & 17), the key factor in determining whether an assurance engagement is to be conducted still comes back to whether a conclusion is required. In order to determine whether a conclusion is required the practitioner needs to understand the engaging party's objectives and the needs of the intended users.

The Framework states that "the intended users are the person, persons, or class of persons for whom the assurance practitioner prepares the assurance report. The responsible party can be one of the intended users, but not the only one" (paragraph 28).

The Framework explains the critical difference between an AUP and assurance engagement:

"Whenever practical, intended users or their representatives are involved with the assurance practitioner and the responsible party (and the engaging party if different) in determining the requirements of the assurance engagement. Regardless of the involvement of others however, and unlike an agreed-upon- procedures engagement (which involves reporting findings based on procedures, rather than a conclusion):

- (a) The assurance practitioner is responsible for determining the nature, timing and extent of procedures; and
- (b) The assurance practitioner ought to pursue any matter the assurance practitioner becomes aware of that leads the assurance practitioner to question whether a material modification ought to be made to the subject matter information." (paragraph 30)

Underlying the practitioner's ability to form a conclusion, is the scope to exercise professional judgement in determining the nature, timing and extent of evidence-gathering procedures in order to obtain sufficient appropriate evidence to reach a conclusion. Where the practitioner is restricted in the procedures which they may conduct under the terms of the engagement, the findings may not provide sufficient appropriate evidence on which to base the conclusion.

In an AUP engagement the engaging party determines the procedures and there is no scope for the practitioner to design or perform further evidence gathering procedures in response to assessed risk. In these AUP engagements it is the engaging party's responsibility to determine whether the findings meet their objectives or the needs of users.

In an assurance engagement it is critical that the assurance practitioner obtains "an understanding of the subject matter and the other assurance engagement circumstances, sufficient to identify and assess the risks of the subject matter information being materially misstated, and sufficient to design and perform further evidence-gathering procedures." (ASAE 3000, paragraph 30) In contrast in an AUP engagement the practitioner conducts the procedures specified without first undertaking this risk assessment.

## **2. Nature of current agreed-upon procedures engagements**

Agreed-upon procedures (AUP) engagements are at times used as a low cost alternative to audits or reviews as they do not require the planning, understanding of the entity and its environment, risk assessment and formation of a conclusion necessary in an assurance engagement. AUP engagements nevertheless involve the conduct of procedures of an audit nature but the nature and extent of those procedures is specified by the engaging party.

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The benefit to the engaging party of using an assurance practitioner to conduct the agreed-upon procedures is that assurance can be drawn from the expertise, skill and independence of the practitioner conducting the procedures. Although this can be distinguished from the practitioner providing assurance in the form of a conclusion, in practice the practitioner may be closely involved in assisting the engaging party in determining agreed-upon procedures which will meet their objectives.

Based on example reports that the AUASB staff have reviewed, it would appear that some AUP engagements have been conducted under AUS 904, which in fact provide assurance whether overtly or inadvertently.

Inadvertently providing assurance may occur where the user relies on the report as if it provided an assurance conclusion. Such an expectation gap is arguably more likely if the engaging party has relied on the practitioner to advise them as to what the agreed-upon procedures should be or there is scope for professional judgement in determining the procedures to be conducted.

Providing assurance overtly without applying the AUASB Standards may occur where the report contains conclusions, even though the report states that it provides no assurance.

Possible reasons for engagements being conducted inappropriately as AUP or non-assurance engagements rather than assurance engagements may be:

- the practitioner misjudges when an assurance engagement rather than a non-assurance engagement (e.g. agreed-upon procedures) is appropriate;
- the engaging party misunderstands the limitations of the findings contained in an AUP report with respect to meeting their needs;
- the procedures to be conducted are not adequately specified in the terms of engagement and the practitioner uses their professional judgement in selecting the procedures;
- the engaging party requests a non-assurance engagement as an alternative to audit or review on the basis of cost alone rather than as the most appropriate means of addressing their objectives; or
- the practitioner tailors the engagement to provide no assurance in order to avoid the requirements of the AUASB Standards, which may seem onerous for narrow scope engagements.

### **3. Issues to be addressed**

The issues which this raises are:

- A non-assurance engagement may seem cost effective but may not address the users' needs or objectives.
- An expectation gap may arise between the information contained in an AUP report and extent of the reliance which the user places on that report.
- Conclusions may be provided in an AUP report without the relevant requirements for an assurance engagement contained in the AUASB Standards being applied.

To address these issues, the assurance practitioner must decide in conjunction with the engaging party on the following;

- the scope of the engagement and whether the intended user requires assurance
- the level of assurance (if any) that the intended user may require

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- the type of engagement that the assurance practitioner will perform

Without the above process there will be ambiguity as to the understanding of the intended user and what form or assurance (if any) that they believe they are receiving.

#### **4. Existing Requirements**

Assurance engagements which are most likely to be confused with an agreed-upon procedures engagement are those where the engaging party has very specific requirements and so the scope of the engagement is narrow. These engagements may be required regarding any subject matter, including financial, non-financial and systems and controls, and may be reported in long form if the engaging party requires detailed findings. The requirements for these engagements would appear to be addressed already in existing standards, which are, depending on the subject matter and the level of assurance to be provided:

- ASAE 3000 for audits or reviews of non-historical financial information, including controls, management information; compliance and emissions and energy.
- ASA 800 (revised & redrafted) or ASA 805 (revised & redrafted) for audits of historical financial information other than a financial report or complete set of financial statements, for which the ASAs are applied as necessary in the circumstances.
- ASRE 2405 for reviews of historical financial information (other than a financial report).

As some AUP reports are being issued which contain conclusions, the overriding issue is whether all of the necessary procedures have been performed by the assurance practitioner to be able to issue a report consistent with those issued under an assurance engagement. This will include whether sufficient appropriate evidence has been gathered to reduce the assurance engagement risk to a level that is acceptable for a limited or reasonable assurance engagement. If these matters are not adequately addressed within the scope of the agreed-upon procedures performed then the report issued by the assurance practitioner should not represent that assurance is provided. To do so would be in contravention of existing AUASB Standards. Consequently the issue is more one of whether the existing requirements are being applied rather than whether additional requirements are needed.

It follows therefore, that if more consistent application of the AUASB Standards with respect to narrow scope engagements is needed but adequate requirements are in place, then guidance on the application of the AUASB Standards to these engagements is required.

#### **5. Further Guidance Required**

Areas which will need to be addressed in new guidance to address the issues identified may include:

- Clarification of the factors which differentiate an assurance from a non-assurance engagement.
- When it is appropriate to conduct an assurance versus a non-assurance engagement.
- How to apply the requirements of the AUASB Standards to the conduct of a narrow scope assurance engagement.
- The impact on the risk assessment work required for an assurance engagement conducted by the existing auditor of the entity compared to the additional work which would be required for a practitioner who is not the auditor of the entity.

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