Agenda Item 6.2 AUASB Meeting 18-19 April 2011 Marked Up Version

ASRS 4400 (April 2011) Standard on <u>Related</u> <u>ServicesAssurance</u> <u>Engagements</u> <u>ASAEASRS 4400</u> *Agreed-Upon Assurance Procedures Engagements to Report Factual Findings* (Revision of AUS 904)

Issued by the Auditing and Assurance Standards Board



Obtaining a Copy of this Standard on **<u>Related Services</u>**

This Standard on <u>Related Services</u> is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au.

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PREFACE

Reasons for Issuing Standard on <u>Related Services</u> 4400

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 Standard on <u>Related Services</u> ASAEASRS 4400 Agreed-Upon Procedures <u>Engagements</u> 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.

ASRS 4400 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 Standard on Related Services and ISRS 4400 are noted in the conformity statement following the application material in the standard.

Main Features

This Standard on <u>Assurance Engagements-Related</u> Services (<u>ASAEASRS</u> 4400) establishes mandatory Requirements and provides Application and Other Explanatory material for assurance practitioners when accepting, undertaking and reporting on <u>assurance</u>-engagements to conduct agreed-upon <u>assurance</u>-procedures.

This Standard on Related Services:

(a) details ethical requirements, including independence, applicable to agreed-upon procedures engagements;

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(b) describes acceptance requirements for agreed-upon procedures engagements;

(c) requires terms of the engagement to be agreed;

(d) requires the assurance practitioner to plan the work;

(e) specifies that the assurance practitioner does not conduct a risk assessment nor applies materiality;

(f) describes quality control requirements;

(g) describes requirements for using the work of others;

(h) describes the documentation requirements;

(i) requires the procedures to be conducted when performing the engagement to be limited to those agreed; and

(i) describes the form and content of the report of factual findings.

Operative Date

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

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

The main differences between this Standard on Assurance Engagements ASAE <u>ASRS</u>_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 Agreedupon 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 <u>ASRS</u> 4400 by no later than 8 February 2011. In addition, respondents are asked to consider and respond to the following questions:

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What, if any, are the additional significant costs to/benefits for 1 assurance practitioners and the business community for compliance with this proposed AS? Are there any significant public interest matters that constituents wish to raise? Will adherence to the independence requirements applicable to 3 Other Assurance Engagements present any additional costs for assurance practitioners? Will these costs, if any, be passed on to the business community? 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? 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? 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; risk; or (h)the findings. (c) 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? If a user relies on the factual findings reported is this based on: the practitioner's competence and skill in conducting the (a) procedures (as currently drafted); or assurance provided by the practitioner? If so, how is the (b) level of assurance defined?

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The AUASB would prefer that respondents express a clear overall opinion on whether the proposed ASAE <u>ASRS</u> 4400, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or eritical, on any matter. The AUASB regards both critical and supportive comments as essential to a balanced review of the proposed ASAE <u>ASRS</u> 4400.

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(PROPOSED) AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates this Standard on Assurance Engagements Related Services ASAEASRS 4400 Agreed-upon Assurance-Procedures Engagements to Report Factual Findings as set out in paragraphs

1 to 468, pursuant to section 227B of the Australian Securities and Investments Commission Act 2001.

This Standard on <u>on Related Services</u> Assurance Engagements ASAE <u>ASRS</u> 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.

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STANDARD ON ASSURANCE ENGAGEMENTSRELATED SERVICES ASAE ASRS 4400

Agreed-upon Assurance Procedures Engagements to Report Factual Findings

Application

This Standard on <u>Assurance EngagementsRelated Services</u> (<u>ASAEASRS</u>) applies to agreed-upon <u>assurance</u>-procedures engagements to be conducted by an assurance practitioner, where factual findings are reported but no conclusion or opinion is expressed and no <u>explicit</u> 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.

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

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ASAE 4400<u>This Standard</u> is operative for agreed-upon assurance procedures engagements commencing on or after 1 July 2011.

Introduction

An agreed-upon assurance procedures engagement involves the conduct of assurance procedures of an assurance nature from which no conclusion or opinion is expressed by the assurance practitioner and no assurance is provided explicitly to intended users. Instead only factual findings obtained as a result of the procedures conducted are reported.

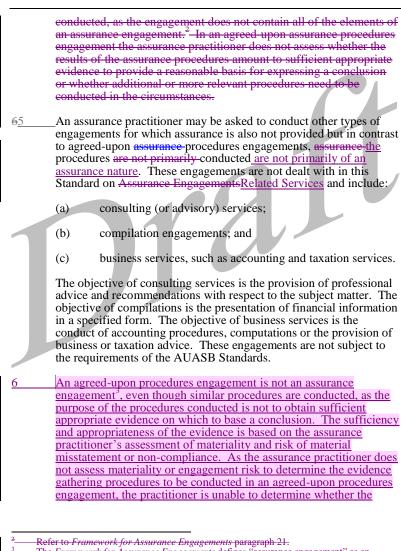
5 An agreed-upon assurance procedures engagement is not an assurance engagement⁴ per se, even though assurance procedures are

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.

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³ 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.

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	evidence is sufficient and appropriate to reduce risk to an acceptable level as a basis for a conclusion.
7	ASAE-ASRS 4400 addresses the assurance practitioner's professional responsibilities to accept agreed-upon assurance procedures engagements to report factual findings only if:
	(a) the practitioner has the capabilities and competence to perform the procedures ;explicit
	(a)(b)assurance is not deemed to be necessary to meet the needs of intended users of the assurance practitioner's report;
I	(b)(c) the assurance practitioner will is not be required to determine the sufficiency of the procedures to be conducted;
	(c)(d)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
1	(d)(e) each of the procedures to be conducted is to be clearly specified in the engagement letter.
	Specifically, it expands on how theIn so doing the assurance practitioner will meet their obligations under 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 <u>when</u> acceptance acceptingof an agreed-upon assurance procedures engagement.
8	ASAE-ASRS 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
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Comment [CG1]: Moved from para. 5 and amended.

	(Revision of AUS 904)		
		skills of the assurance practitioner, an agreed-upon assurance procedures engagement may be misunderstood as providing assurance. The <i>Framework for Assurance Engagements</i> ⁴ 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 This Standard deals with the content of a report of factual findings in order to differentiate it from an assurance report.	
	10	ASAE 4400This Standard 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 <u>intended</u> user's understanding of that report.	
ļ	Objec	tive of the Assurance Practitioner	
	Ш	The objective of the assurance practitioner in an agreed-upon assurance-procedures engagement is to apply their professional capabilities and competence to in carrying out procedures of an assurance nature, to which the assurance practitioner, the engaging party and any third party (as applicable) have agreed and to report factual findings, without providing assurance or implying that assurance has been provided, and to report factual findings.	
	Defini	tions	
	12	Assurance practitioner means a person or an organisation, whether in public practice, industry, commerce or the public sector, providing assurance services. ⁵	
	13	Assurance pProcedures of an assurance nature means procedures conducted by an assurance practitioner to evaluate or measure the subject matter against criteria which are the same or similar to procedures conducted in an assurance engagement. Assurance procedures may include tests of controls or substantive procedures.	
1	Requi	rements	

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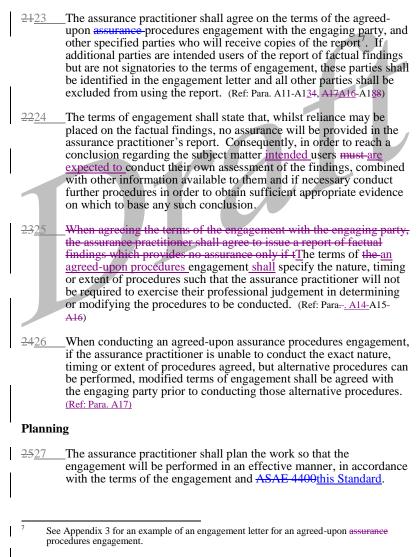
 ⁴ Framework for Assurance Engagements, paragraph 15. The term "assurance practitioner" is used throughout this ASAE as defined in ASAE 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information. Such reference is not intended to imply that assurance is being provided. 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.

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 equivalent to the ethical requirements applicable to to-Other Assurance Engagements, including those pertaining to independence unless the engaging party has explicitly agreed to modified independence requirements 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 equivalent to the quality control required for an assurance engagement. (Ref: Para. A3)
16	When conducting an agreed-upon assurance procedures engagement the assurance practitioner shall comply with ASAE 4400this <u>Standard</u> and with the terms of the engagement agreed with the engaging parties y .
Accept	ance 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)
18	Even though the practitioner assesses the needs of <u>intended</u> users in accepting an agreed-upon assurance procedures engagement, the assurance practitioner is not responsible for the sufficiency of the assurance <u>agreed-upon</u> procedures to be conducted.
<u>19</u>	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.
19 20	Before agreeing to accept an agreed-upon procedures engagement, the assurance practitioner shall determine that the engagement team collectively possess the competence, capabilities and resources to perform the procedures.
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:0 21	proced	ssurance practitioner shall not accept an agreed-upon assurance lures engagement if, in the professional judgement of the nce 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 ⁶ 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; (Ref: Para. A10)
		(ii) determine the sufficiency of assurance the 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
		(iv) reach a conclusion or form an opinion based on the evidence gathered. (Ref: Para. A10)
iv)<u>22</u>	team un Financ compo practiti compo	Form ander ASA 600 Special Considerations – Audits of a Group cial Report (Including the Work of Component Auditors) as a onent auditor in a group audit. When the assurance ioner is engaged to conduct "specified procedures" for a onent of a group audit under ASA 600, this standard is able in addition to the relevant requirements for component

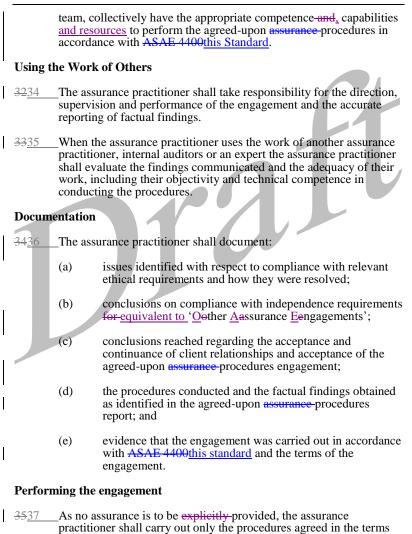
Agreeing on the Terms of the Agreed-upon Assurance-Procedures Engagement



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Standard on <u>Assurance EngagementsRelated Services</u> <u>ASAEASRS</u> 4400 Agreed-upon <u>Assurance</u> Procedures <u>Engagements</u> to Report Factual Findings (Revision of AUS 904)			
26<u>28</u>	engagement shall be procedures agreed in include alternative or	restricted to the n the terms of enga further assurance	oon assurance-procedures ature, timing and extent of agement. The plan does not procedures unless agreed rms of engagement. (Ref: Para
Risk A	ssessment		
27 <u>29</u>	agreed-upon assurance and extent of procedu	e-procedures engures to be conduct than determined	nduct a risk assessment for an agement, as the nature, timin ted are agreed with the by the assurance practitioner
Materi	ality		
<u>2830</u>	practitioner does not be performed nor to a the subject matter inf	apply materiality assess the factual formation is free of	es engagement the assurance to designing the procedures to findings to determine whether of material misstatement <u>or</u> <u>ibility of the intended users</u> .
Quality	v Control		
<u>2931</u>	quality of the agreed- shall apply the firm's	upon assurance p quality control p	esponsibility for the overall procedures engagement and rocedures applicable ter Assurance Engagements.
30<u>32</u>	alert, through observa evidence of non-com including independer matters come to the a that members of the e	ation and making pliance with relev- ice, by members of assurance practition engagement team rements, the assu	ance practitioner shall remain enquiries as necessary, for vant ethical requirements, of the engagement team. If oner's attention that indicate have not complied with rance practitioner shall
31<u>33</u>	The assurance practit team ⁸ , and any exper	ioner shall be sat ts <u>engaged w</u> ho a	isfied that the engagement re not part of the engagement
all or a	partners and staff performin	g the engagement, and procedures on the en	ry (in the context of ASQC 1), mean d any individuals engaged by the firn gagement. This excludes external
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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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3638 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) When conducting an agreed-upon 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 and documented prior to conducting those alternative procedures. (Ref: Para. A19) If the engaging party's requirements alter during the course of the engagement and which require the assurance practitioner to draw 3739 conclusions from the findings, the terms of the agreed-upon procedures engagement cannot be extended to the provision of assurance, however then a new engagement will need to may be agreed, where possible, 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

<u>40</u>	The assurance practitioner provides a report of factual findings for agreed-upon procedures engagements. In contrast to an assurance report, a report of factual findings, but does not include an evaluate <u>ion of</u> 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.
<u>384</u>	The assurance practitioner does not provide recommendations as part of the agreed-upon procedures report. If the assurance practitioner is reporting on an agreed-upon procedures engagement in conjunction with recommendations, the report of factual findings must be clearly differentiated from those recommendations.
<u>394</u>	2 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

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conducted or assessed whether sufficient appropriate evidence has been obtained as a reasonable basis for expressing a conclusion. <u>40</u>43 Use of the report should-shall 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. <u>41</u>44 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, intended 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 the report of factual findings and other sources they provide is sufficient and appropriate to provide a basis for any conclusion they intended users may reach. The intended users of the report are entitled to rely on the professional competence and capabilities expertise of the assurance practitioner in conducting the agreed-upon procedures effectively and reporting the findings accurately. (Ref: Para A22) 4245 The report of factual findings for an agreed-upon assurance procedures engagement shall contain: (a) a title; an addressee (ordinarily the engaging partiesy); (b) (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 partiesy; (e) a statement that the engagement was performed in accordance with ASAE ASRS 4400; (Ref: Para. A223) (f) a statement that either ethical requirements equivalent to Formatted: Font: 10 pt those applicable to Other Assurance Engagements have Formatted: Font: 10 pt been complied with, including independence, or, if modified independence requirements have been agreed in the terms of engagement, a description of the level of independence applied; **ASRS 4400** - 20 -AUDITING STANDARD

identification of the purpose for which the agreed-upon (f) assurance procedures engagement was performed; a statement that the responsibility for determining the (g) adequacy or otherwise of the assurance procedures agreed to be performed by the assurance practitioner is that of the engaging partiesy; (h) a listing of the specific assurance procedures performed, detailing the nature, timing and extent of each procedure; (Ref: Para. A252) a description of the assurance practitioner's factual findings (i) in relation to each procedure performed, including sufficient details of errors and exceptions found; (Ref: Para. A225) identification of any of the assurance procedures agreed in (j) the terms of the engagement which could not be conducted and why that has arisen; (Ref: Para A236) (k) a statement that the assurance-procedures performed do not constitute either an audit or a reviewa reasonable or limited assurance engagement and, as such, no assurance is expressed: (1)a statement that had the assurance practitioner performed additional procedures, a reasonable or limited assurance engagementan audit or review, other matters might have come to the assurance practitioner's attention that would have been reported; (m) a statement that use and distribution of the report is restricted to those parties identified in the report, that who have agreed to the procedures to be performed and those or were identified in the report terms of engagement; a statement (when applicable) that the report relates only to (n) 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; **ASRS 4400** - 21 -**AUDITING STANDARD**

- (o) the date of the report;
- (p) the assurance practitioner's address; and
- (q) the assurance practitioner's signature. (Ref: Para A24)

4346 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-ASRS 4400 only if the assurance practitioner's report includes, at a minimum, each of the elements in the preceding paragraph.
 4447 Liff law or regulation of the relevant jurisdiction may prescribes the

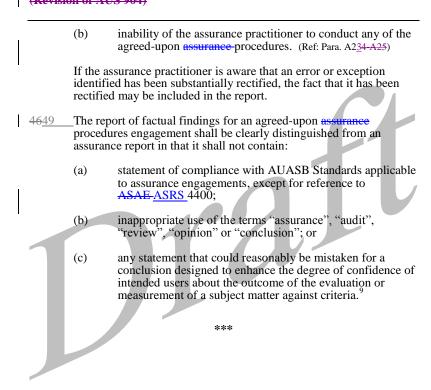
- 4447 <u>Liff</u> aw or regulation of the relevant jurisdiction <u>may</u> prescribes the layout or wording of the assurance practitioner's report <u>of factual</u> <u>findings</u> in a form or in terms which are significantly different from the requirements of <u>ASAE 4400(this Standard</u>). In these circumstances the assurance practitioner shall evaluate:
 - (a) whether intended users might misunderstand the factual findings reported and the fact that no assurance is provided; and, if so_{27}^{\pm}
 - (b) whether additional explanation in the report of factual findings can mitigate possible misunderstanding.

If the assurance practitioner considers that additional explanation in the auditor's report of factual findings 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 4400this Standard, the auditor assurance practitioner shall not include any reference in the report of factual findings to the engagement having been conducted in accordance with ASAE A400.

- 4548 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

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⁹ Refer to *Framework for Assurance Engagements*, paragraph 16.

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 Engagements¹⁰.

The ethical requirements permit the independence requirements to A2. be modified, if the intended users of the assurance practitioner's 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, which is already included in reports of factual findings. 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. In any case the independence of the assurance practitioner and the engagement team will need to be assessed.

A3. ASQC 1 <u>also</u> 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. 17-22 θ)

<u>A4.</u> 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.

¹⁰ 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 Independens<u>ce</u> – other assurance engagements Dec 2010) issued by the Accounting Professional & Ethical Standards Board Ltd (APESB) subsequent to ASA 102 (Oct 2009).

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	A4.	_
	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 users, of the assurance practitioner's report, the assurance practitioner considers the purpose for which users intend to use the report. If <u>intended</u> 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 <u>intended</u> 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
	1	agreed-upon assurance procedures engagement if some elements of an assurance engagement, provided in the <i>Framework for Assurance</i> <i>Engagements</i> , 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.
I		• 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.
1		• 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 <u>intended</u> users wish to draw conclusions they assess for themselves

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the sufficiency and appropriateness of the evidence which

the findings provide on their own or in combination with other available evidence.

- 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 agreedupon 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: ASA 805 Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or (a) 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
 - 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 information¹¹.
 - 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

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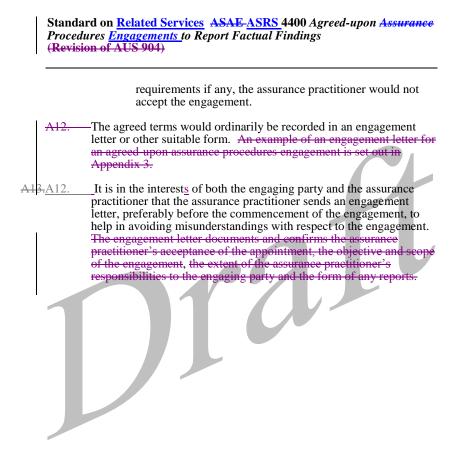
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Refer also to ASAE 3100 Compliance Engagements and ASAE 3500 Performance Engagements, as appropriate.

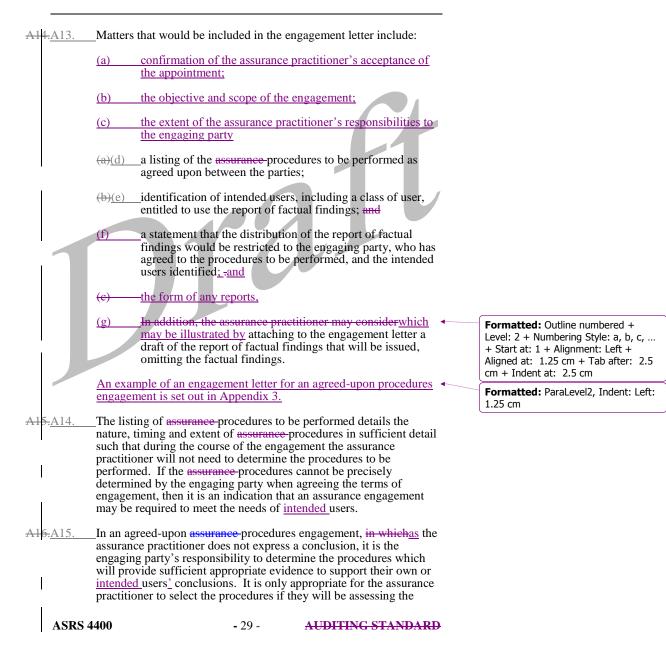


is not responsible for the adequacy of the agreed-upon assurance procedures nor for assessing whether the findings will be sufficient either alone or in combination with other evidence to support any conclusions which the users intend to draw. The assurance practitioner's role in an agreed-upon procedures engagement is to use their professional competence and capabilities to the conduct of the agreed-upon procedures effectively and to report the findings accurately. 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 may be an assurance engagement and, if so, -the relevant requirements in the AUASB standards must need to be applied. Agreeing on the Terms of the Agreed-upon Assurance-Procedures Engagement (Ref: Para. 231-264) Matters to be agreed in an agreed-upon assurance-procedures A11. engagement include the: nature of the engagement, including the fact that the (a) procedures performed will not constitute <u>a reasonable or</u> limited assurance engagement an audit or a review and that accordingly no assurance will be expressed; (b) stated purpose for the engagement; identification of the subject matter to which the assurance (c) procedures will be applied; (d) nature, timing and extent of the specific procedures to be applied performed; (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 limitations on distribution of the report of factual findings. (g) When such limitation would be in conflict with the legal **ASRS 4400** - 27 -**AUDITING STANDARD**



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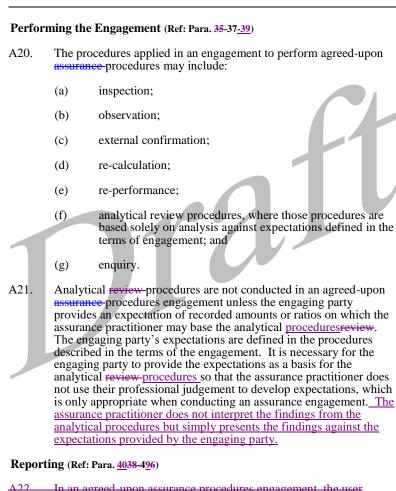
evidence to support a conclusion, provided in an assurance engagement.

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 is intended to be used. These intended users may include: regulators or industry bodies which issue requirements for (a) assurance procedures to be conducted and factual findings to be reported; and an identifiable class of users which are intended to receive (b)the report of factual findings for a specified purpose.))<u>A</u>17 If alternative procedures are agreed during conduct of the engagement, the assurance practitioner documents the alternative procedures agreed and agrees amended terms of engagement in writing with the engaging parties prior to reporting on the factual findings. 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. 275-286) 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 ascertain matters such as the nature, timing and extent of the resources necessary to perform to be used on the engagement and access to the entity's staff, premises, records and documentation.

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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.

A2B.A22. 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 <u>capabilities and</u> competence and skill in conducting the agreed-upon assurance procedures. The report of factual findings needs to describe the

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procedures conducted and findings in sufficient detail to enable the <u>intended</u> 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 4400this Standard 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 4400this Standard.

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 assurance practitioner's work; or
- (c) limitations imposed by management of the engaging parties.

_An illustrative example of a report of factual findings, incorporating the elements set forth in paragraphs $\frac{39.4540-49}{40-49}$, is set out in Appendix 4.

Conformity with International Standards on <u>Related</u> <u>Services</u>

Except as noted below, <u>ASAE_ASRS</u> 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 <u>ASAE_ASRS</u> 4400 and ISRS 4400 are:

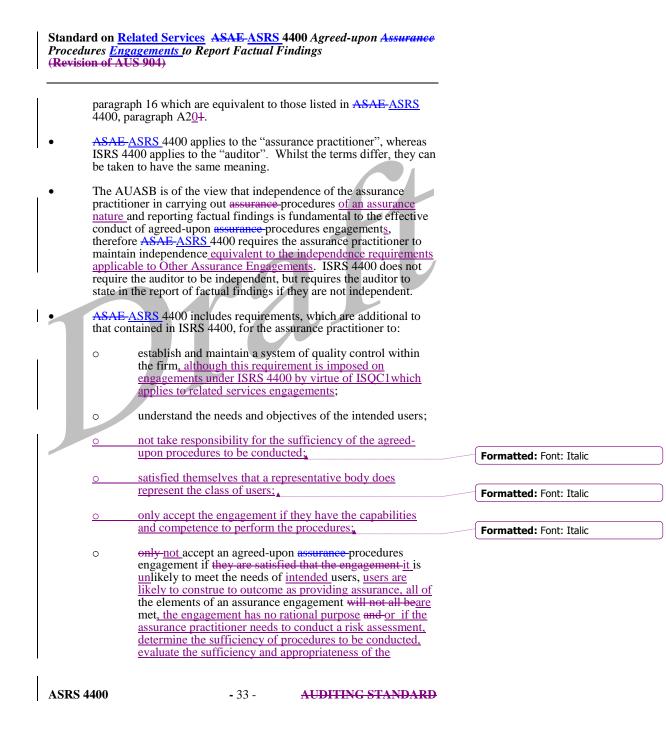
- <u>ASAE-ASRS</u> 4400 is not limited to procedures regarding "financial information" whereas ISRS 4400 is limited to financial information.
- <u>ASAE ASRS</u> 4400 applies to "<u>assurance procedures of an assurance</u> <u>nature</u>" whereas ISRS 4400 applies to "procedures of an audit nature". Whilst the terms differ, they can be taken to have the same meaning as indicated by the procedures listed in ISRS 4400

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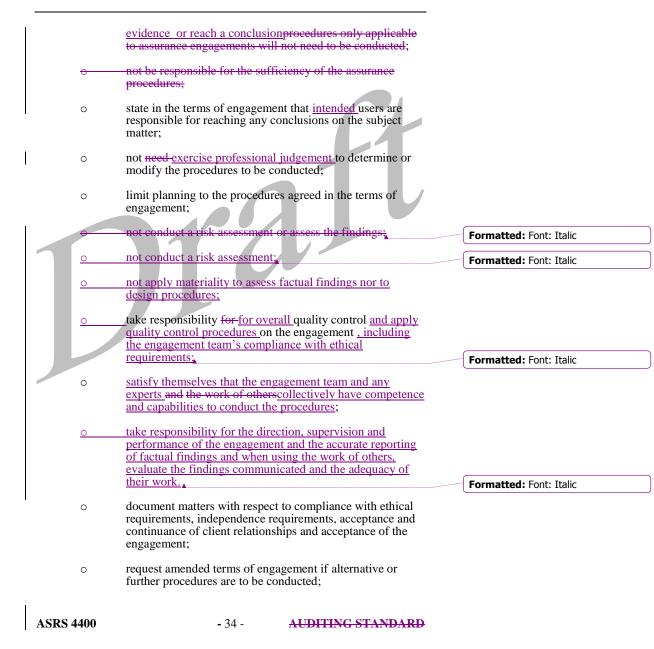
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not assess the findings or provide a conclusion or opinion; 0 restrict use of the report to intended users; not to assert compliance with ASAE ASRS 4400 if the e requirements are not met; not issue a modified report or emphasis of matter but 0 instead report all errors or exceptions in the factual findings even if they are subsequently rectified; exclude wording from the report of factual findings which 0 may indicate that assurance is being provided; and states in the report of factual findings that the responsibility 0 for determining the adequacy of the agreed-upon assurance procedures is that of the engaging party. Compliance with this Standard on Assurance EngagementsRelated Services <u>ASAE ASRS</u> 4400 enables compliance with ISRS 4400.

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Appendix 1

(Ref: Para. A<u>9</u>8)

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

Differentiating Factor	Agreed-upon Assurance Procedures Engagement	Assurance Engagement
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:	NoneProfessional judgement may be exercised in assisting the engaging party to identify procedures when agreeing the terms of engagement, but only professional competence is exercised when conducting the agreed- upon procedures.	Professional jJudgement exercised <u>in</u> <u>selecting procedures</u>
Sufficiency and appropriateness of evidence assessed by:	Intended uUser	Assurance practitioner
Form and content of report:	Factual findings, no conclusion or explicit assurance provided	Conclusion providing assurance

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Differentiating Factor	Agreed-upon Procedures Engagement	Assurance Engagement
Reporting of procedures conducted:	Detail of the exact nature, timing and extent of all procedures conducted are reported	Summary of work performed
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 <u>or if a</u> <u>management letter is</u> <u>provided in addition to</u> the assurance report.

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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.

Nature of engagement	Purpose of engagement	Scope of an Agreed-upon Assurance-Procedures Engagement	Scope of an Assurance Engagement
1. Turnover Lease	To assist parties to a lease agreement based on turnover	 Agree gross turnover to underlying data; Baseleulete adjusted 	• Audit/review compliance with the turnover lease
Agreement	in assessing compliance with	 Recalculate adjusted 	agreement to pro

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=	re of ement	Purpose of engagement	Scope of an Agreed-upon Assurance-Procedures Engagement	Scope of an Assurance Engagement
		the agreement.	turnover based on agreed formula; andRecalculate the turnover rent payable under the lease agreement.	reasonable/limited assurance conclusion as to whether the entity has complied, in all material respects, with the lease agreement over the period.
2. Mana Agree		To assist the directors of each entity to fulfil their reporting requirements under management agreements with the managing entity.	• Agree data from entities' income statements to the entities' trial balances, parent entity consolidation schedule and audited consolidated financial report.	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.
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	r			

Nature of engagement	Purpose of engagement	Scope of an Agreed-upon Assurance Procedures Engagement	Scope of an Assurance Engagement
3. Leave Provisions	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.	 Agree start date and employment terms for a random sample of X staff to employment contracts. Agree leave taken to employee records. Recalculate long service leave and annual leave provisions for X staff to be transferred as part of a novation agreement. 	 Audit/review employee leave provisions to provide a reasonable/limited assurance conclusion as to whether leave balance are calculated, in all material respects, in accordance with corporate policy.
4. Loan Securitisation	To assist the engaging party and potential investors in determining the data on which to base the securitisation of a pool of loans.	 Select X Joans. Agree specified loan data to supporting documentation and check loan data against given criteria. Recalculate total loan pool data. 	 Audit/review the loan pool to provide a reasonable/limited assurance conclusion as to whether the loan pool is reported, in all materia respects, in accordance with the agreed basis.
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Nature of engagement	Purpose of engagement	Scope of an Agreed-upon Assurance -Procedures Engagement	Scope of an Assurance Engagement	
5. Stocktake Procedures	Assisting management to determine the value of stock on hand.	 Attend X sites, test count X stock items to stock count sheets. Trace X stock count sheets to summary stock data. Agree X stock items to inventory account and agree cost to supplier invoices. 	 Audit/review stock at period end to provide a reasonable/limited assurance conclusion as to whether <u>stock is the</u> value-<u>fairlyof stock is</u> reporte, in all material respects, in accordance with corporate policy. 	Formatted: Indent: Left: -0.01 of Hanging: 0.53 cm, Tab stops: No 1.27 cm
6. Debtors' balances	Assisting management to identify issues in debtors' collection.	 Agree aged debtors to the trial balance at period end. Agree the largest (at period end) X debtors to sales invoices. Trace X randomly selected debtor balances to subsequent receipts. Itemise bad debt written off for the period with 	 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, in all material respects, in accordance with the 	
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Nature of engagement	Purpose of engagement	Scope of an Agreed-upon Assurance-Procedures Engagement	Scope of an Assurance Engagement
		 explanations provided by management. Itemise customers on stop supply or COD. Identify any debtor legal action. Determine value and number of credit notes for the period. Calculate debtors aging percentages at period end. 	agreed basis of accounting.
7. Controls to meet contractual obligations (Data supplied by providers under confidentiality	To assist client in completing their certificate of compliance with respect to confidentiality and privacy agreements.	 Agree list of users with access to restricted data to signed Confidentiality Statements. Agree individual Confidentiality Statements to Confidentiality agreement. 	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
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l	Nature of engagement	Purpose of engagement	Scope of an Agreed-upon Assurance-Procedures Engagement	Scope of an Assurance Engagement
	and privacy agreement requiring controls to protect data)		 Identify confidentiality training held over reporting period, percentage of users attended and average hours training attended per user. Trace data access log for X days to list of approved users. 	are fairly described, suitably designed and operating effectively throughout the reporting period.
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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 ASAEASRS 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 EngagementsRelated Services. 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.

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

[The objective and scope of the engagement]

You have requested that we conduct the agreed-upon assurance procedures specified below <u>[as required by [name of representative</u> <u>body or regulator]</u> to meet the needs of <u>[class of intended users]</u>. We are pleased to confirm our acceptance and understanding of this agreedupon 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 <u>Assurance EngagementsRelated Services</u> <u>ASAE ASRS</u> 4400 Agreedupon <u>Assurance</u>-Procedures <u>Engagements</u> to Report Factual Findings. That standard requires that we comply with ethical requirements <u>applicable equivalent</u> to Other Assurance Engagements¹², including independence, and plan and perform the agreed procedures to obtain

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¹² If applicable, reference APES 110 Code of Ethics, Section 291 (Dec 2010).

factual findings. [If appropriate¹³: We will 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 [which include procedures required by [name of representative body or regulator]] 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.]

If we are unable to conduct the exact nature, timing or extent of procedures agreed above but alternative procedures are available, we will only conduct these alternative procedures if modified terms of engagement are agreed with [name of engaging party and intended users].

[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:
 - 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:

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¹³ 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.

- (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.
- (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. Use of our report will be restricted to you [and [name of other intended users or class of users]] and all other parties will be excluded from using the report.

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)

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Name and Title

Date

Acknowledged on behalf of [name of Entity] by

(signed)

Name and Title

Date

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

(signed)

Name and Title

Date]

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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 Related Services Engagements ASAE ASRS 4400 Agreed-upon Assurance Procedures Engagements to Report Factual Findings. We have complied with the ethical requirements applicable equivalent to Other Assurance Engagements¹⁴, including independence [if

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¹⁴ If applicable, reference APES 110 Code of Ethics, Section 291 (Dec 2010).

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 <u>a reasonable or limited</u> <u>assurance engagement an audit or a review</u>-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 Findings¹⁵

I

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:

	surance Procedure onducted	Factual Findings	Errors or exceptions identified
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.	[Detail exceptions]
3	For X suppliers randomly selected from the attached schedule we obtained suppliers' statements or requested suppliers to confirm balances owing at	We found there were suppliers' statements for all such suppliers.	None

¹⁵ 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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Assurance Procee Conducted	lure	Factual Findings	Errors or exceptions identified
cheques paid <u>paid</u> and we ascerta they should in	confirmations referred to ints which did obtained from [entity]. ions obtained, nd listed voices, credit uespayments, was greater Ve <u>agreed</u> voices over <u>pliers selected</u> <u>vale for</u> <u>iod, located</u> <u>such invoices</u> <u>ecceived and or</u> <u>ayment made.</u>	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-payments over \$XXX were appropriately listed asas agreed to reconciling items except for <u>unless</u> exceptions noted.	[Detail exceptions]

[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:]

Assurance Procedure Unable to be Conducted	Reasons Procedures was Unable to be Conducted
[Detail procedure in terms of engagement]	[Detail reasons]

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

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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 <u>ASAE-ASRS</u> 4400, this report is restricted to those parties that have agreed the procedures to be performed with us and other intended users 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]

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