

14 February 2011

Ms. Merran H Kelsall  
Chairman  
Auditing and Assurance Standards Board  
Level 7, 600 Bourke Street  
Melbourne, VICTORIA, 3000

Dear Merran,

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

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on AUASB's exposure draft "Proposed Standard on Assurance Engagements ASAE 4400 *Agreed-Upon Assurance Procedures to Report Factual Findings* (Revision of AUS 904)".

**General Comments**

Paragraph 2 of the proposed Standard states that the proposed Standard on Assurance Engagements may be applied by a practitioner other than an assurance practitioner. Our key concern is the potential application of the proposed Standard on Assurance Engagements to non-assurance engagements and non-assurance practitioners. We understand that non-assurance service lines of firms such as Corporate Advisory, Valuation Services, and Transactional Advisory Services regularly use Agreed Upon Procedures engagements to carry out specified procedures for clients and it is generally accepted that these engagements provide no assurance.

During APESB's recent development of APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document* some stakeholders (i.e. legal practitioners, underwriters and investment banks) believed that there is a level of assurance in Agreed Upon Procedures as the task is performed by an audit firm. For example, in a Due Diligence Committee process in relation to a proposed acquisition or merger, a practitioner may carry out an Agreed-Upon Procedures engagement to agree key financial information in the public document to the audited financial statements. In these cases the practitioners (who are generally not assurance practitioners) perform specified procedures agreed with the client and communicate the factual findings to users of these services. Based on our discussions with respondents during the development of APES 350 it is apparent that there is an expectation gap in respect of Agreed Upon Procedures in the market place and the potential application of the proposed ASAE 4400 to these types of engagements will add further confusion to the market place.

Accordingly, we recommend that AUASB consider removing the application of the proposed Auditing Standard to other practitioners who perform non-assurance engagements.

## Responses to Specific Questions

### *Question 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?***

We are concerned with the use of the word ‘assurance’ when describing procedures used to perform an agreed-upon procedures engagement. As noted above, this may add to the confusion in the market place on whether there is a level of assurance provided by an Agreed-Upon Procedures engagement.

By having the word “assurance” it may lead some users to believe that the particular Agreed-Upon Assurance Procedures engagement as described in the proposed Standard will in fact be providing some level of assurance as it is performed by using ‘assurance procedures’ and it is conducted by an assurance practitioner using a Standard on ‘Assurance Engagements’.

Paragraph 15 of the *International Framework for Assurance Engagements* states that where a practitioner is reporting on an engagement that is not an assurance engagement; the practitioner must clearly distinguish the report from an assurance report. This paragraph provides further guidance by stating that inappropriate use of the words “assurance”, “audit” and “review” should be avoided so as not to confuse users.

It is generally accepted that there are two levels of assurance which are:

- Reasonable assurance (e.g. Financial Statement Audit)
- Limited assurance (e.g. Half year review of a Listed Entity)

Then there are engagements which provide no assurance. The two most common examples are compilation engagements and agreed upon procedures engagements (Refer paragraph 12 of the *International Framework for Assurance Engagements*).

Accordingly we believe that some users of professional services are likely to be confused whether Agreed-Upon Assurance Procedures as specified in ASAE 4400 is likely to lead to some form of assurance.

Paragraph 5 of the proposed Standard states that an Agreed-Upon Assurance Procedures engagement does not contain some of the elements of an assurance engagement. However, it does not then go on to specify which of the elements of an assurance engagement needs to be present for an assurance practitioner to perform an Agreed-Upon Assurance Procedures engagement.

Further, a key distinguishing feature of assurance procedures is that the determination of nature, timing and extent of procedures are determined by the assurance practitioner. However, generally in an Agreed-Upon Procedures engagement the nature, timing and extent of procedures are determined by the client and then performed by a practitioner.

***Question 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 judgment to conduct agreed procedure, as they would in an audit or review?***

We believe that in an Agreed-Upon Procedures engagement a practitioner is demonstrating professional competence as a qualified accountant in performing the specified procedures agreed with the client. Further, in these circumstances the practitioner does not have to make an assessment whether the performance of the specified procedures achieves the client's objectives. This is distinctively different from an audit or review engagement where an assurance practitioner will exercise professional judgement to select and perform the procedures that will achieve the objectives of the audit or review.

***Question 7***

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

We do not believe that factual findings reported by a practitioner constitute a conclusion. Conclusions are generally expressed when an assurance engagement (audit or review) is performed.

**Other comments**

Footnote 9 refers to APESB's Exposure Draft ED 03/10 of Proposed APES 110 *Code of Ethics for Professional Accountants*. We would like to bring to your attention that the revised version of APES 110 is now issued and the reference to Section 291 should be Section 291 *Independence – Other Assurance Engagements*.

If you would like to discuss this submission, please do not hesitate to contact me on 0418 836984 or email [kspargo@bigpond.net.au](mailto:kspargo@bigpond.net.au) or Channa Wijesinghe, Technical Director on (03) 9642 4372 or email at [channa.wijesinghe@apesb.org.au](mailto:channa.wijesinghe@apesb.org.au).

Yours sincerely



Kate Spargo  
Chairman