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The Chairman
Auditing and Assurance Standards Board
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Our ref 1629951_1.DOCX

via email: edcomments@auasb.gov.au

8 February 2011

Dear Ms Kelsall

**Exposure Draft 03/10 Proposed Standard on Assurance Engagements ASAE 4400
Agreed-upon Assurance Procedures to Report Factual Findings**

We are pleased to have the opportunity to comment on ED 03/10.

We are supportive of the need to update and re-issue extant AUS 904 *Engagements to perform Agreed-upon Procedures*, however, we have a number of concerns with the proposed standard that we would like to bring to the Board's attention.

Detailed below are our key concerns as well as our response to the specific questions included in the exposure draft. We have also provided additional more detailed comments on the specific paragraphs in the exposure draft in an appendix to this letter.

Key concerns

The following are our key concerns which we believe require further thought prior to the proposed standard being issued.

1. Potential confusion around these engagements providing assurance

We understand that one of the goals in revising AUS 904 was to promote the use of Agreed-upon Procedures engagements in appropriate circumstances by providing greater clarity that these engagements do not convey assurance from the practitioner to the intended users.

We believe that this aim has not been achieved by the proposed standard. The key reasons for the proposed standard being confusing in this regard are:

- the proposed standard being called an assurance standard;

- the title of the proposed standard including the phrase “agreed- upon **assurance** procedures”;
- the standard being focused on the conduct of “assurance procedures”;
- the standard requires compliance with ethical requirements as if it were an assurance engagement; and
- the proposed standard refers to the fact that “explicit assurance” is not provided. This could be interpreted to mean that “implicit assurance” is provided.

We recommend that each of the points above is further considered by the Board in light of the goal of the revision to AUS 904 as identified above.

2. Independence requirements

The proposed standard requires the assurance practitioner to comply with ethical and independence requirements applicable to those for “Other Assurance Engagements”.

We do not believe the proposed standard should be prescriptive about the applicable ethical and independence requirements for these engagements. It is our view that these requirements should be established by the Accounting Professional and Ethical Standards Board.

3. Definition of assurance procedures

The proposed standard refers to assurance procedures and defines these in paragraph 13 as: *“procedures conducted by an assurance practitioner to evaluate or measure the subject matter against criteria. Assurance procedures may include tests of controls or substantive procedures typically performed in an agreed-upon procedures engagement.”*

We do not find this definition particularly helpful and believe it should be amended to reflect the specific types of procedures that may be performed, eg. inspection, enquiry, confirmation, observation, computation etc.

4. Interaction with ASA 600 Special Considerations – Audits of a Group Financial Report (including the Work of Component Auditors)

One of the common uses of agreed-upon procedures engagements is in the conduct of a group audit. The performance of specified procedures (essentially agreed-upon procedures) is specifically contemplated in ASA 600.29. The proposed standard does not make reference to or provide any specific guidance on its applicability to a group audit. We believe that it would be appropriate for such guidance to be provided in the proposed standard and for the Board to consider whether ASA 600 should also include guidance on applying this proposed standard in any future revisions to ASA 600.

Requested comments

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

We do not believe there are additional significant costs to practitioners. We believe there are benefits to assurance practitioners and the business community having greater clarity around the nature of an agreed-upon procedures engagement to ensure that this type of engagement is only provided when appropriate to do so. Ideally the standard should reduce the “expectation gap” that may arise from an assumption that an agreed-upon procedures engagement provides “assurance” to the user.

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

Nothing specific to raise.

- 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?**

We do not believe there will be additional costs for assurance practitioners. However, please refer to comment on independence requirements above.

- 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?**

As discussed above, we consider that this will cause confusion on the part of all stakeholders.

- 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?**

We believe that it is appropriate to refer to just professional competence and skill of the practitioner and not make any reference to the use of professional judgement.

- 6. In an agreed-upon procedures engagements, 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?

No. However, the standard should acknowledge that the assurance practitioner may provide input to the engaging party in determining the procedures to be performed.

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

No, we do not believe so.

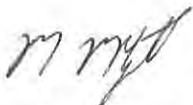
8. If a user relies on the factual findings reported is this based on:

- (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?**

We believe the reliance on the factual findings is based on the practitioner's competence and skill in conducting the procedures. Agreed-upon assurance procedures engagements do not provide assurance.

We would be pleased to discuss our submission with members of the AUASB or its staff. If you wish to do so, please contact me on (02) 9335 7360.

Yours sincerely



Martin McGrath
Partner

Appendix One

Proposed Standard: ASAE 4400 Agreed-upon Assurance Procedures to Report Factual Findings (Revision of AUS 904) Note: throughout this table the term AUP is used for “agreed upon assurance procedures”



	<i>Paragraph(s)</i>	<i>Issue noted</i>	<i>Recommendation</i>
1	1, 4, 7(a), 38	Use of phrase “explicit assurance”	Use of “explicit” assurance may be confusing to users as it can be interpreted to mean that there is implicit assurance in an AUP engagement. As an AUP engagement is not intended to provide assurance these references to explicit assurance could be replaced with assurance. If the term “explicit assurance” has been used for a particular reason, the proposed standard should explain the intent of explicit assurance and clarify the implicit assurance issue.
2	5	Use of “per se”	Use of “per se” in this paragraph may be misleading to users as it can be interpreted to mean that an AUP is some form of an assurance engagement. We recommend removing this term.
3	7(b)	Use of “will not be”	We recommend that this be changed to “the assurance practitioner is not required to determine...” We also believe it would be appropriate to include guidance in the standard which acknowledges that , while the client has ultimate responsibility for determining the adequacy of the procedures to be performed, that the assurance practitioner may provide guidance to the client in formulating those procedures.



	<i>Paragraph(s)</i>	<i>Issue noted</i>	<i>Recommendation</i>
4	11	Wording	<p>We recommend that this paragraph be amended to</p> <p>“The objective of the assurance practitioner in an agreed-upon assurance procedures engagement is to carry out procedures, 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 assurance has been provided.</p>
5	16	Wording change	<p>As there can be more than one engaging party to an AUP engagement, we recommend that the paragraph be reworded as follows:</p> <p>“When conducting an agreed-upon assurance procedures engagement the assurance practitioner shall comply with ASAE 4400 and with the terms of the engagement agreed with the engaging parties.”</p>
6	24	Additional guidance required on agreeing modified terms of engagement	<p>While we are supportive of the principle that any changes in the procedures to be performed should be agreed with the engaging parties and documented in a modified engagement letter, in practice it is likely that the alternative procedures will be agreed verbally with the client and performed prior to an amended engagement letter being issued. Therefore we recommend the inclusion of a guidance paragraph that indicates that this is acceptable practice as long as the discussions with the client are documented appropriately.</p>
7	26	Redundant paragraph	<p>We do not believe this paragraph is necessary as the engagement is, by its nature, restricted to the AUP agreed with the engaging parties.</p>



	Paragraph(s)	Issue noted	Recommendation
8	28	Further detail on materiality required	<p>We recommend that this paragraph be amended to ...does not apply materiality to assess the factual findings to determine whether the subject matter information is free from material misstatement, nor in designing the assurance procedures to be performed.</p> <p>We also believe it would be appropriate to include a guidance paragraph which acknowledges that the client may set a materiality level to be applied in the performance of the agreed procedures.</p>
9	34(b)	“Other Assurance Engagements” should be capitalised for consistency.	
10	36	Sentence may be confusing	<p>We recommend that the first sentence in this paragraph be reworded as follows:</p> <p>“...the assurance practitioner shall request amended terms of engagement, so that the assurance practitioner does not need to determine the procedures to be conducted...”</p>
11	40	Use of the word “should” is inconsistent with the ASAs and other ASAEs where “shall” has been adopted.	<p>Replace “should” with “shall”.</p> <p>Other uses of should/must should be reconsidered to determine if shall would be more appropriate.</p>
12	41	Sentence may be confusing	<p>We recommend that the second sentence in this paragraph be reworded as follows:</p> <p>“...findings reported by the assurance practitioner along with information from other sources and ensure that the evidence which the report on factual findings and other sources provide is sufficient and appropriate to provide the basis for any conclusion the user may reach...”</p>



	Paragraph(s)	Issue noted	Recommendation
13	42(d)	Wording change	As there can be more than one engaging party to an AUP engagement, we recommend that the paragraph be reworded as follows: “a statement that the procedures performed were those agreed with the engaging parties.”
14	42(g)	Wording change	As there can be more than one engaging party to an AUP engagement, we recommend that the paragraph be reworded as follows: “a statement that the responsibility for determining the adequacy or otherwise of the assurance procedures performed is that of the engaging parties.”
15	42(k), A11	Use of audit or review	As the ASAEs use “reasonable assurance engagement and limited assurance engagement” we believe consideration should be given to whether these terms should be used rather than “audit or review”
16	42(n)	Typographical error	“items or financial...” should be corrected to “items of financial”
17	A2	Wording change	We recommend that the paragraph be reworded as follows: “...if the intended users of the assurance practitioner’s report are knowledgeable...”
18	A3	Wording change	We recommend that the word “also” be inserted after ASQC 1.
19	A10	Wording change	We recommend that the paragraph be reworded as follows: “...In these circumstances the engagement may be an assurance engagement...”
20	A17	Wording change	We recommend that the paragraph be reworded as follows: “...will understand the purpose for which the report of factual findings is intended to be used...”



	<i>Paragraph(s)</i>	<i>Issue noted</i>	<i>Recommendation</i>
21	A19	Wording change	"...is restricted to the nature, timing and extent of assurance procedures as agreed..."
22	A21	Analytical procedures	As the Assurance Practitioner can only report factual findings from the performance of analytical procedures, guidance should be provided on the types of findings that are appropriate, given the engagement parties must set the expectations. Eg "The assurance practitioner reports factual findings in relation to whether the results of the analytical procedures were within the expected range set by the intended user" etc.
23	A25(b)	Typographical error	Replace "auditor" with "assurance practitioner"
24	A25(c)	Wording change	We recommend that the paragraph be reworded as follows: "limitations imposed by management of the engagement parties."
25	<i>Conformity statement, fourth bullet point</i>	The reference to independence should be amended to "maintain independence as required by the ethical requirements applicable to Other Assurance Engagements". The proposed standard does not provide any guidance on whether it is expected that the assurance practitioner would obtain written confirmation of oral representations obtained during the engagement or whether they may choose to do so whether they consider it to be appropriate or necessary.	Requirements and guidance in relation to written representations should be considered for inclusion in the standard.



	<i>Paragraph(s)</i>	<i>Issue noted</i>	<i>Recommendation</i>
		Clarification on the users of the report is required.	The standard uses both “users” and “intended users”. We recommend the term “intended users” be used as the use of an AUP report should be limited to the intended users. A definition of intended users may also be useful.
	Appendix 2 examples		The Appendix is quite length and the examples become repetitive. Also the examples of assurance procedures performed in an assurance engagement are biased towards compliance engagements and it may be more useful to reflect a wider variety of engagement types to assist in clarifying the differences in the work performed in the two types of engagement.