

The Chairman  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
Melbourne Victoria 8007

10 February 2011

Dear Ms Kelsall,

**Re: Exposure Draft ED 03/10 Proposed Standard on Assurance Engagements ASAE 4400 *Agreed-Upon Assurance Procedures to Report Factual Findings (Revision of AUS 904)***

We appreciate the opportunity to comment on Exposure Draft ED 03/10 Proposed Standard on Assurance Engagements ASAE 4400 *Agreed-Upon Assurance Procedures to Report Factual Findings (Revision of AUS 904)* ("the ED") as developed by the Australian Auditing and Assurance Standards Board ("AUASB").

### Overall comments

We are supportive of the need for the update and re-issuance of the current pronouncement in relation to agreed-upon procedures ("AUP") engagements. The standard was last revised in July 2002, since then the extent of use and purpose for which AUP engagements are applied, has become more extensive.

We believe that it is in practitioner's interests to have a standard that reflects the current stakeholder demands whilst at the same time reflecting the limitations of AUP engagements and clearly distinguishing them from assurance engagements. Accordingly, we do not support the current form of the ED due to the following reasons:

- the issuance of the pronouncement as an assurance standard; and
- the proposed independence requirements as presented in the ED.

Further information on each of these is detailed below.



## Concerns with the issuance of the pronouncement as an assurance standard

The ED is drafted as an assurance standard, yet paragraph one states: *"This Standard on Assurance Engagements (ASAE) applies to agreed-upon assurance procedures engagements to be conducted by an assurance practitioner, where factual findings are reported but no conclusion or opinion is expressed and no explicit 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"*. In our view, this gives rise to stakeholder confusion about the nature of an AUP engagement.

We understand that the ED has been drafted as an assurance standard as the remit of the AUASB, under section 227B of the ASIC Act, is the issuance of Auditing and Assurance standards. However, in our view, issuing a standard that deals with the practitioner's responsibilities in an AUP engagement as an assurance standard will add to the confusion amongst stakeholders as to the differences between assurance and AUP engagements and does not serve the public interest.

We note that the standard relating to AUP engagements issued by the International Auditing and Assurance Standards Board ("IAASB") is categorised as a related services standard, ISRS 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*. In our view this distinction is very important as it avoids potential confusion amongst practitioners and users as to the resulting outcome of the practitioners work. We do note that the predecessor to ISRS 4400 had been issued as an auditing standard.

We believe that the Australian AUP standard should be issued as a standard on related services (ASRS) which is consistent with the standard issued by the IAASB and is also consistent with the definition of "related services" as per the AUASB glossary which states *"that related services means agreed-upon procedures and compilations"*. We acknowledge that AUS 904, the existing standard on AUP engagements, has been issued as an auditing standard which arguably could give rise to confusion as to the nature of the engagement, but note that it has been drafted in the context of the practitioner's responsibilities in an AUP engagement only without reference to assurance engagements.

Concerns about the mis-use of assurance terms and misunderstanding as to which engagements result in assurance being obtained, has been the subject of discussion a number of times. In our view, it is important in standard setting that we do not contribute to stakeholder confusion by issuing standards which are unclear as to the applicable framework. It is clear under the definition of an assurance engagement in the AUASB glossary that an AUP engagement is not an assurance engagement as it does not result in the *"evaluation or measurement of a subject matter against criteria"* by the practitioner.

Since the ED has been drafted as an assurance standard, the ED follows the format of other assurance standards. As a result, it includes sections on requirements that are not applicable in an AUP engagement, for example, risk assessment. In our view this detracts from the standard, which should focus on the practitioner's obligations in an AUP engagement rather than having to rationalise why certain requirements of an assurance engagement are not necessary for an AUP engagement. As a result, the standard is very long and much of the valuable additional guidance for practitioners is not given sufficient emphasis.



## Proposed Independence requirements

We do not support the introduction of a requirement that independence requirements applicable to assurance engagements should apply to AUP engagements.

Independence requirements, both internationally and in Australia, apply only to assurance engagements. An assurance engagement is defined in APES 110 *Code of Ethics for Professional Accountants* (APES 110) as an engagement “*in which a Member in Public Practice 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. This includes an engagement in accordance with the Framework for Assurance Engagements issued by the AUASB or in accordance with specific relevant standards, such as International Standards on Auditing, for Assurance Engagements.*”

We note that the ED states that an AUP engagement is not an assurance engagement because it does not meet the requirements of the Framework for Assurance Engagements. Therefore there is no requirement for a practitioner to comply with the independence requirements with respect to an AUP engagement.

Paragraph AUST 290.7.2 in the independence section of the current APES 110 provides that not all engagements performed by members are assurance engagements, and that other frequently performed engagements not covered by the Framework for Assurance Engagements include “Engagements covered by Australian Auditing Standards for agreed-upon procedures engagements”.

There is no requirement, nor public interest imperative, to require independence requirements applicable to assurance engagements to apply to any non-assurance engagement including AUP engagements. In fact, in our view it would further confuse a stakeholder into believing they are being provided with assurance in the context of an AUP engagement.

We also respectfully submit that it is not within the remit of the AUASB to establish specific independence or other ethical requirements for assurance practitioners. This is the responsibility of the Accounting Professional and Ethical Standards Board (“APESB”) and therefore relevant ethical requirements and how they apply to AUP engagements, if any, should be determined by the APESB. In addition, APES 110 explicitly excludes AUP engagements with respect to compliance with independence requirements.

We recommend the AUASB reassess the inclusion of assurance related independence requirements within the ED. We strongly believe that independence requirements should not apply for an AUP engagement whereby no assurance is provided and only factual findings are reported – which is also consistent with ISRS 4400.



## Other Observations

### Items which we believe improve the quality of the existing standard

As we have already stated, we are supportive of the re-issuance of the pronouncement on AUP engagements and believe that the current standard which was issued in 2002 does not provide sufficient guidance for stakeholders. We believe that the additional guidance and requirement in the ED in the areas listed below, enhance the quality of the ED and are beneficial to all stakeholders.

- Additional guidance included in relation to use by third parties
- The requirement for the practitioner to obtain an understanding of the users' needs and objectives to assess the appropriateness of an AUP engagement
- The additional guidance and examples in Appendix 1 which assist in distinguishing between an AUP engagement and an assurance engagement
- The additional emphasis included in relation to the user assessing the findings for themselves and drawing their own conclusions

### Use of the term "assurance procedures"

The ED repeatedly uses the terms "agreed-upon assurance procedures" and "assurance procedures" which give the wrong impression as to the nature of an AUP engagement and will be very confusing for stakeholders. Within the ED, on the one hand there are continual references to "assurance procedures" and the need to comply with requirements applicable to "other assurance engagements" and then on the other hand, there are numerous statements and guidance confirming that an AUP engagement doesn't meet all the criteria of an assurance engagement and does not intend to provide any assurance to the users.

Assurance procedures are defined in the ED 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.*" Substantive procedures are defined in the AUASB Glossary as "*audit procedures designed to detect material misstatements at the assertion level and...comprise tests of details...and substantive analytical procedures.*" The use of these terms and definitions appears inappropriate and creates confusion with respect to the nature of procedures that are applicable within an AUP engagement. Moreover, assurance procedures do not constitute only tests of controls or substantive procedures as is the case in a limited assurance engagement. Furthermore, we contend that in an AUP engagement assurance procedures are not performed as the practitioner does not determine the nature, timing and extent of the procedures as they are agreed by the engaging parties.

We recommend the AUASB reconsider the use of the terms "agreed-upon assurance procedures" and "assurance procedures". We believe that the term(s) used should not include reference to "assurance" at all and a more appropriate term would simply be "agreed-upon procedures" or something similar.

We acknowledge that AUS 904 and ISRS 4400 make reference to an AUP engagement whereby procedures of an audit nature will be performed but does not describe them as audit procedures. If considered necessary by the AUASB, a similar statement could be included within the ED to describe the common nature of the procedures to be performed, however this does not mean that the procedures should be in anyway referred to as "assurance



procedures”. It should also be noted that not all of the procedures performed under an agreed-upon procedures engagement are necessarily of an audit nature.

### Assurance Practitioner

The ED refers to the person or organisation engaged to perform the agreed-upon procedures as an “assurance practitioner”. Assurance practitioner is defined in the ED as *“a person or an organisation...providing assurance services”*. Although the footnote in the ED states that such a reference is not intended to imply that assurance is being provided, given that reference is made throughout the ED to the “assurance practitioner” who will perform the “agreed-upon assurance procedures”, the continual use of the word “assurance” in an AUP engagement where no assurance is provided will be confusing for stakeholders.

We recommend the AUASB re-visit the use of the term “assurance practitioner”. We believe that AUP engagements do not necessarily require an assurance practitioner to perform them and thus the term used should be more generic and may be defined perhaps as a person or an organisation with appropriate skills, knowledge and experience to perform the AUP (or something similar).

### Use of Analytical Procedures in an AUP engagement

Analytical review procedures are referred to in the ED as one type of procedure that may be performed in an AUP engagement.

It is noted that “analytical review procedures” is not a defined term in the ED. However, “analytical procedures” is defined in the AUASB Glossary as *“evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.”* This requires the exercise of professional judgement by the practitioner which is not appropriate in an AUP engagement where the practitioner reports factual findings and does not provide a conclusion or interpretation on them.

We believe that reference to “analytical review procedures” is confusing and is not applicable for an AUP engagement. These types of procedures in the context of an AUP engagement would constitute procedures relating to re-calculation and then comparison (which are already included within the ED as types of procedures that may be performed in an AUP engagement).

We suggest that reference to “analytical review procedures” be deleted from ASAE 4400.

### References in the standard which indicate that in certain circumstances assurance may be given in an AUP engagement.

We are concerned that the ED includes phrases and references to “explicit assurance” for example, *“and no explicit assurance is provided”* (par 1), *“as no assurance is explicitly provided”* (par 35) and *“The assurance practitioner provides a report of factual findings, but does not evaluate those findings in order to draw a conclusion or form an opinion which provides explicit assurance”* (par 38). In our view this could be interpreted as meaning that implicit assurance is provided, which it is not, therefore we recommend deleting the word explicitly from the ED.



Furthermore, we have concerns with para 23 as drafted, which states *“When agreeing the terms of the engagement with the engaging party, the assurance practitioner shall agree to issue a report of factual findings which provides no assurance only if the terms of the engagement specify the nature, timing or extent of procedures such that the assurance practitioner will not be required to exercise their professional judgement in determining or modifying the procedures to be conducted”*. In our view this could be interpreted as meaning that if the terms do not meet these criteria that an AUP engagement could be performed and assurance is provided. We recommend that the AUASB revisit the wording in this paragraph.

## Specific areas on which the AUASB is seeking a response

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

As noted above, we believe that it is in stakeholder’s interests that this pronouncement is issued as a related services standard.

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

As noted in our overall comments above, we believe the ED will create stakeholder confusion due to the assurance standard format and continual reference to “assurance practitioner” and “assurance procedures”.

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?

As noted above, we do not agree with the inclusion of independence requirements (applicable to other assurance engagements) for AUP engagements.

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 believe that the term “assurance procedures” will not be properly understood by stakeholders who will assume that assurance has been provided.

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?

The practitioner is not required to exercise professional judgement to conduct an AUP engagement as the only output of the engagement is a report of factual findings.

6. In an agreed-upon assurance procedures engagement, as currently drafted, the assurance practitioner does not assess:

- (a) the adequacy of the procedures to be conducted;

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

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

We agree that the practitioner is not required to assess the adequacy of the procedures to be conducted, risk or the findings.

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

The factual findings reported do not, and should not, constitute a conclusion provided by the practitioner.

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?

If a user relies on the factual findings reported, we believe this is based on the practitioner's competence and skill in conducting the procedures as is currently included within the ED. We re-emphasise that no assurance is provided by the practitioner.

Appendix 1 includes specific comments on individual paragraphs in the ED.

We would be pleased to discuss our comments with members of the Board or its staff. If you wish to do so, please do not hesitate to contact me on 02 9322 7288.

Yours sincerely,

Deloitte Touche Tohmatsu



Caithlin McCabe

Partner



## APPENDIX 1: Comments on specific paragraphs

Please note that for the purpose of efficiency, we have not included below any specific comments relating to the topics already covered in the sections above.

Paragraph No.	Comment
7	<p>The second paragraph refers to other AUASB standards in relation to acceptance of an agreed-upon procedures engagement which is unclear and confusing for readers.</p> <p>We recommend the AUASB clarify the intention of this paragraph and update the wording as appropriate.</p>
11	<p>The objective of the assurance practitioner included in paragraph 11 is not clear and suggests that the assurance practitioner in conjunction with the engaging party (and any third party) have determined the procedures to be performed.</p> <p>It is noted that the assurance practitioner agrees to perform the procedures (if appropriately worded), however they are not responsible for determining the procedures as this is the responsibility of the engaging party.</p> <p>We recommend the AUASB re-visit this paragraph and consider updating the wording.</p>
19	<p>Would it be appropriate to include an option within the example engagement letter to cover this situation, whereby the engaging party confirms that they are representing the needs of the class of users?</p>
20(b)	<p>It is likely that intended users of the report of factual findings will construe the outcome of the engagement as providing assurance if the report makes reference to an assurance standard.</p>
21 & A11(f)	<p>We believe that the 2<sup>nd</sup> part of paragraph 21 should be deleted and the wording in paragraph A11(f) updated, as all intended users of the report should agree to the terms of the engagement. Given the specific nature of the AUP performed, it is important that all intended users, including regulators and banks, agree to the terms of the engagement.</p>
22	<p>We cannot see where this statement is explicitly included in the example engagement letter.</p>
24	<p>A specific statement relating to the situation when alternative procedures can be performed if agreed with the engaging party is not included in the example engagement letter.</p>
27 & 28	<p>We would question why these paragraphs are included. It appears that detailed information is included with respect to activities that are <u>not</u> applicable to an AUP engagement.</p>
29	<p>We believe it is not appropriate to include a requirement that the firm's quality control procedures be applied to an AUP engagement as if it was an assurance engagement.</p>



32 & 33	We are not sure whether these paragraphs relating to “using the work of others” are adding any value and how often they would be applicable in an AUP engagement.
36	This paragraph seems to be a duplication of the requirement already included in paragraph 24.
37	States that “...a new engagement will need to be agreed for the provision of assurance...” – we believe that the word “agreed” on its own is not appropriate as there may be some instances where the parties are unable to agree. Instead we suggest that the words “where possible” be added after the word “agreed” so it reads like this: “...a new engagement will need to be agreed, where possible, for the provision of assurance...”.
39	The wording of this paragraph is confusing as it is focussing on the type of reporting that the practitioner should <u>not</u> be providing.
42(b)	It states that the addressee would ordinarily be the engaging party, is it suggesting that the addressee may not be the engaging party and if so, when will this situation arise?
42(h) & 42(i)	Makes reference to paragraph A25 which is the paragraph referring to the example report. Is this the correct reference?
42(j)	Makes reference to paragraph A26 which doesn’t exist.
44	The last section of this paragraph refers to the “auditor’s report” and the “auditor”. We are unsure as to why these references are included here.
45	The use of the word “error” suggests that something is wrong which would require the practitioner to apply professional judgement. We acknowledge that an error may exist if the procedure is to check the mathematical accuracy of a report (for example), however this is probably the only instance where reference to an error would be appropriate. The continual reference to “errors” and “exceptions” without any further guidance suggests that errors would be common in an AUP engagement which is not the case.
A2	This paragraph indicates that where modified independence requirements are applied that the report of factual findings is to include a restriction on use and distribution to the intended users only. We believe that the restriction on use and distribution would be a standard condition included in all AUP reports.
A4	The use of the word “ensure” doesn’t seem appropriate in this paragraph.
A9	We would suggest that the assurance practitioner would be “recommending” procedures that may assist the engaging party, rather than “determining” the procedures.
A11(d)	We would suggest that procedures are “performed” rather than “applied”.
A14	This paragraph seems to be a duplication of the information already included in paragraph A11.
A16	The current wording of this paragraph suggests that there could be instances



	in an AUP engagement when the practitioner expresses a conclusion, which is not the case.
A19	We believe that the reference to plan certain matters such as access to entity's staff and premises is not referred to in other standards and is therefore inconsistent.
A24(b)	Makes reference to "the auditor's work" which is not appropriate.
Conformity with ISRS 4400	<p>The last bullet point on pages 29-30 includes a list of additional requirements within ASAE 4400 that are not applicable under an ISRS 4400 engagement. For example, the requirement that the practitioner not assess the findings or provide a conclusion or opinion.</p> <p>Based on how this paragraph is worded, it suggests that these activities can be performed in an ISRS 4400 engagement, which we believe is not the intention.</p> <p>In addition, it states that ASAE 4400 has an additional requirement for the practitioner to establish and maintain a system of quality control within the firm, however ISRS 4400 requires compliance with ISQC1 so this statement doesn't seem to be correct.</p>
Appendix 1	In the last row it refers to the reporting of findings for an assurance engagement which would only be applicable if a modified report was issued. We believe that findings may be reported in an assurance engagement if a Board Audit Committee report or management letter is issued for example.
Appendix 2	We believe that some of the examples of engagements would not be appropriate to be performed as an AUP engagement and we don't think it is appropriate to suggest that they would be. For instance, Leave Provisions (example 3) and the completeness of Accounts Payable (example 7).
Appendix 2	<p>We believe that some of the detailed information included within the table is incomplete or not appropriate.</p> <p>For instance, the last four AUP in example 6 Debtor's balances do not include enough detail to be sufficiently worded AUP. One of the procedures, for example, is "Identify any debtor legal action".</p> <p>Another example where insufficient detail is included, is the second AUP in example 7 Accounts Payable which states "Agree major supplier balances provided to trial balance". This procedure requires further information included as to how the "major suppliers" are defined.</p> <p>An example of information included that is not appropriate, is within the scope of an assurance engagement for example 7 Accounts Payable, where it states that an audit/review will be performed on the valuation of accounts payable, however the purpose of the engagement is to assist management in assessing the completeness of accounts payable.</p>
Appendix 3	We are unsure what the purpose is in relation to including the statement at the top of the example engagement letter that "it may be appropriate to seek legal advice that any proposed letter is suitable".



Appendix 4	<p>The second paragraph under the section entitled “Assurance Practitioner’s Responsibility” includes a statement that “Because the above procedures do not constitute either an audit or a review...” – within the example engagement letter they are referred to as “reasonable or limited assurance engagements”.</p> <p>Some of the wording included within the example factual findings seems inappropriate. For example, the procedures included in step 4 includes wording such as “we located and examined” and “we ascertained” and within the factual findings in step 4 it states that “were appropriately listed” which requires judgement to be used.</p> <p>Also refer to comments above in relation to paragraph 45.</p>
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