



CHARTERED ACCOUNTANTS™
AUSTRALIA + NEW ZEALAND

APS-1(revised)
Agreed-Upon Procedures
Engagements to Report Factual
Findings

Implementation FAQs

Issued by the Regulatory Board of the
New Zealand Institute of Chartered Accountants (NZICA)

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Contents

General	3
1. Why has the standard been updated?.....	3
2. Why has the NZRB, rather than the NZAuASB issued this standard?	3
3. When does the new APS-1(revised) apply?	3
4. Who needs to comply with APS-1(revised)?.....	3
5. What does APS-1(revised) replace?.....	4
6. What about guidance on multi-scope engagements?	4
7. How will this standard be impacted by the IAASB revision of ISRS 4400?	4
8. Why has the NZRB used the Australian standard ASRS 4400 as a base?	5
Specific issues	5
1. Audit independence and an AUP engagement	5
2. Modifying independence	6
3. Procedures of an assurance nature	6
4. Application to members in business.....	7
5. Rational purpose	7

General

1. Why has the standard been updated?

The New Zealand Regulatory Board (NZRB) of NZICA has released APS-1(revised) *Agreed-Upon Procedures Engagements to Report Factual Findings* to ensure that New Zealand has a comprehensive and robust standard that covers these types of engagements. They are becoming increasingly common in practice, revealing unhelpful deficiencies in the requirements of the existing 25 year old APS-1 *Statement of Agreed Upon Procedures Standards*. The NZAuASB does not currently have mandate to set standards for agreed-upon procedures (AUP) engagements and so the NZRB has used the mandate it has to better support its members performing these engagement types. The new standard more clearly explains the differences between AUP engagements and other assurance engagement alternatives such as audits and reviews in order to help members and their clients choose the engagement that best suits their needs.

2. Why has the NZRB, rather than the NZAuASB issued this standard?

The New Zealand Auditing and Assurance Standards Board (NZAuASB) is New Zealand's standard setting board for audit and assurance engagements. However its standard setting mandate, defined by legislation, does not currently extend to agreed-upon procedures engagements. In light of the profession's need for a comprehensive, robust new standard (see question 1 above) the NZRB has acted to release APS-1(revised), using its standard setting mandate for these types of engagement.

Revisions to the NZAuASB legislative mandate are currently progressing with the [Regulatory Systems \(Economic Development\) Bill](#) having been introduced on 11 July 2018. The NZRB anticipates that APS-1(revised) will ultimately be replaced by an NZAuASB standard under its new mandate.

3. When does the new APS-1(revised) apply?

The new APS-1(revised) applies to agreed-upon procedures engagements that a member is appointed to perform on or after 1 January 2019. Early adoption is permitted.

4. Who needs to comply with APS-1(revised)?

APS-1(revised) applies to all New Zealand resident members of Chartered Accountants Australia and New Zealand (CA ANZ) performing an agreed-upon procedures engagement. Compliance with the standard is mandatory under paragraph 130.1(b) of the NZICA Code of Ethics and early adoption is permitted. The standard defines an "agreed-upon procedures engagement" as one involving the performance of procedures of an assurance nature ... which result in the issue of a report of factual findings by the member (see paragraph 4 of APS-1(revised)).

5. What does APS-1(revised) replace?

APS-1(revised) supercedes its predecessor APS-1 *Statement of Agreed Upon Procedures Engagement Standards*, issued in 1992 and subsequently amended in 2003 and 2013. It also supercedes the supporting APG-1 *Guideline on Performance of an Agreed Upon Procedures Engagement*, and both have been withdrawn from 1 January 2019. APS-1(revised) has been restructured as a single engagement standard, rather than a statement of multiple individual standards, and contains guidance on its requirements as an integral part of the new format.

6. What about guidance on multi-scope engagements?

A 'multi-scope' engagement is one that generally combines reasonable assurance, limited assurance and agreed upon procedures (AUP) work as a means of best satisfying the user needs of various stakeholders. A growth in these types of engagements has accompanied a growth in AUP engagements worldwide. The new APS-1(revised) contains some guidance on multi-scope engagements, particularly paragraph 40, which ensures that if an AUP engagement is undertaken in parallel with an assurance engagement, reports on both must be presented separately. This, and the greater clarity around the differences between both types of engagements contained in this standard, should assist members when discussing their acceptance of, performing and reporting on multi scope engagements.

The International Auditing and Assurance Standards Board (IAASB) raised the need for more guidance on these engagement types as part of the discussion paper that preceded the commencement of its revision project for its standard on AUP engagements; ISRS 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information* (ISRS 4400). A significant majority of respondents to that consultation commented that, while extra guidance would be useful, work on it should not start until the revision to ISRS 4400 was complete.

7. How will this standard be impacted by the IAASB revision of ISRS 4400?

The International Auditing and Assurance Standards Board (IAASB) is currently undertaking a project to revise its international standard on agreed-upon procedures engagements; ISRS 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information* (ISRS 4400). An exposure draft (ED) is expected to be approved for release at the IAASB's September 2018 board meeting. It should result in the issue of a standard during 2019 which will apply to reports issued after a date that is yet to be decided. More detail on this work can be found via the [IAASB's project page](#).

In revising and reissuing APS-1(revised), the NZRB has followed the approach of the NZAuASB concerning awareness of international standards. In fact APS-1(revised) is based on the equivalent Australian standard; ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*. It has been more recently updated than, but remains in compliance with, the existing ISRS 4400. ASRS 4400 was used because it currently represents international best practice and so many of the reforms likely to be included in the IAASB's revision of ISRS 4400 are already contained in ASRS 4400. Achieving trans-Tasman harmonisation will provide the NZAuASB with a more robust base from which to consider future developments under its revised mandate.

8. Why has the NZRB used the Australian standard ASRS 4400 as a base?

In revising and reissuing APS-1(revised), the NZRB has followed the approach of the NZAuASB concerning awareness of other international standards as explained on the XRB's [Convergence with international standards webpage](#). This explains that the NZAuASB generally adopts standards issued by the IAASB and is also committed to a common set of accounting and auditing standards in both Australia and New Zealand. ASRS 4400 *Agreed Upon Procedures Engagements to Report Factual Findings*, the Australian standard on agreed-upon procedures, issued by the Australian Auditing and Assurance Standards Board (AUASB); was last revised and reissued in 2013. It complies with the much older IAASB standard ISRS 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information* but also includes a range of additional requirements that Australian practical experience suggested were necessary in order to make AUP engagements fit for purpose. These differences are summarised in the *Statement of Compliance with ISRS 4400* that appears at the end of APS-1(revised). At the time the NZRB began this project ASRS 4400 was recognised as international 'best practice' for these engagements. Developing a New Zealand standard from its base offered a robust foundation from which the NZAuASB can undertake future development work in conjunction with the IAASB and AUASB once its mandate is amended.

Specific issues

1. Audit independence and an AUP engagement

I am an auditor performing an AUP engagement for my audit client. I comply with the independence requirements in section 290 of PES 1 (for the audit engagement). Does that mean I need to make reference to 'modifying independence' in my AUP engagement letter and report since I am not complying with the requirements of section 291?

No. The independence requirements in section 290 of PES 1 (*revised*) *Code of Ethics for Assurance Practitioners* are the highest level of independence that can be achieved, responding to the need for auditors to be, and to be seen to be, independent. This reflects the nature of the report they are issuing, the needs of the users to whom it is directed and the fact that an audit is the highest level of assurance offered by the profession. The requirements of section 291 of PES 1(revised) are similar to those in section 290 but are less onerous, seeking to reflect the differing nature of non-audit engagements where the "gold standard" of independence may not be necessary or practical, but where some independence is still desirable. Section 291 also allows independence to be further reduced in circumstances where engagement circumstances permit (such as paragraph 291.21 relating to reports that include a restriction on use and distribution).

The wording of paragraph 16 of APS-1 (revised) uses the term "equivalent" to indicate that the section 291 requirements are the minimum, but not the only option. Exceeding them is not a risk for the users of the report and would only provide them with even more confidence in the findings, not less. However reducing independence is a risk if clients and users are not aware of, and have not agreed to, the reduction. For this reason, while the standard does allow independence to be reduced from the section 291 minimum, it does require this fact to be disclosed. This ensures that users' expectations in this area are actually managed and that the actual level of independence that underlies the report (if it is below the standard minimum) is taken into consideration by the users as they use the report.

2. Modifying independence

Paragraph 16 of APS 1 (revised) permits the independence requirements for an AUP engagement to be modified provided both parties are agreed. Is there any minimum level of “independence” that must be achieved?

Yes. Section 120 of the NZICA Code of Ethics identifies objectivity as a fundamental ethical principle underlying a member’s work. Maintaining objectivity requires that a members must not compromise their professional or business judgement because of bias, conflicts or interests or undue influence of others (paragraph 120.1). This fundamental principle is expanded on for members in public practice by section 280 which requires them to ensure that they can be objective in the provision of those services. Objectivity is threatened by family interests or close personal or business relationships with a client, its directors, officers and employees (paragraph 280.1). This section goes on to prescribe independence requirements that can act as a safeguard for the maintenance of objectivity. Accordingly the Code of Ethics imposes strict independence requirements for audit and review engagements in section 290 where it is critical that members need to be and to be seen to be objective (see paragraph 280.2). Less onerous requirements are prescribed for other engagements where the assurance being provided is lower (section 291) while paragraph 280.2.2 requires that for engagements where no assurance is being expressed, those standards must set appropriate requirements (as has been done in APS-1(revised)).

However where even these detailed requirements can be reduced, as allowed by APS-1(revised), this can only be to the level where the member can still clearly demonstrate that they adequately safeguarding the fundamental principle of objectivity for that engagement. If sufficient safeguards cannot eliminate any threat to their objectivity or reduce it to an acceptable level, then paragraph 280.4 requires the member to decline or terminate the engagement.

3. Procedures of an assurance nature

APS-1(revised) seeks to distinguish agreed-upon procedures engagements from other audit and assurance engagements. However in the ‘Scope’ section, when discussing the type of work performed in this engagement, it uses the term “procedures of an assurance nature”. Isn’t this confusing?

Potentially, but the challenge is to find alternative wording that adequately describes the work being done by the member. ISRS 4400 currently uses the word “audit” in its discussion, which can be argued is more confusing. The IAASB is currently looking at the challenge of using appropriate terminology as part of its revision of ISRS 4400 because poor terminology has contributed to the difficulties differentiating types of engagements that are prevalent in practice. That work may produce terminology that is less confusing. In the meantime APS-1 (revised) defines the term and discusses common types of procedures in the included guidance (see paragraph A15).

4. Application to members in business

Does APS-1(revised) apply to members in business if they conduct activities for their employer that are “procedures of an assurance nature”?

No. APS-1(revised) applies to members conducting formal agreed-upon procedures engagements that involving them providing a report of factual findings in their professional capacity. These engagements must be subject to a specific engagement agreement, setting out what the users need and what the member will provide. Where members are performing regular duties for their employer reviewing and reporting on information, these duties are not considered to be an “agreed-upon procedures engagement” as defined by APS-1(revised).

5. Rational purpose

Why do AUP engagements need to have a rational purpose?

One of the preconditions that must be satisfied before a member can accept an AUP engagement is that they be satisfied that the engagement has a rational purpose (see paragraph 20(e) of APS-1(revised)). This precondition is included to ensure that the member can actually produce a report of factual findings for the engagement that meets the user’s needs without impairing a member’s professional reputation or compromising the member’s professional ethics. Without a rational purpose, the user would struggle to design procedures that made sense for the member to conduct and for which the member could effectively and professionally gather evidence. Therefore it is preferable to assess the purpose of the engagement at the earliest possible stage.

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