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Engagement Standard APS-1(revised)

Agreed-Upon Procedures Engagements to Report Factual Findings

Project Summary and Feedback Statement

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

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APS-1(revised)

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Introduction

New Zealand's revised standard for agreed-upon procedures (AUP) engagements APS-1(revised) *Agreed Upon Procedures Engagements to Report Factual Findings* (APS-1(revised)) was released by the New Zealand Regulatory Board (NZRB) in August 2018. The revision ensures the standard is now a comprehensive guide to AUP engagements which aims to better supports practitioners, and users, of this engagement type.

The standard applies where a member or firm is appointed on or after 1 January 2019 with early adoption permitted. It replaces its predecessor APS-1 *Statement of Agreed Upon Procedures Engagement Standards 1* (APS-1) and the accompanying guidance APG-1 *Guideline on Performance of an Agreed Upon Procedures Engagement* (APG-1) which have both been withdrawn with effect from 1 January 2019.

Project Summary

What is an AUP engagement?

An AUP engagement is one where the member performs procedures that have been previously agreed between the member, the entity engaging the member(the client) and any other intended users of the engagement. The member then issues a 'report of factual findings' on this work which is distributed to the agreed users. These users assess these factual findings for themselves, drawing their own conclusions on the subject matter under investigation. The member does not evaluate the findings or express any form of conclusion or opinion on them which is a key difference between an AUP engagement and an audit or review engagement.

Why the need for change?

AUP engagements are becoming more prevalent because they can be focused on specific user needs for information and so are flexible and cost effective. Common examples include grant providers wanting to ensure the funds they have given were banked by the organisation and spent appropriately and regulators wanting to ensure legislative returns agree to the underlying financial information of the entity (for example Department of Internal Affairs Gaming Machine Summaries or Financial Markets Authority Net Tangible Asset Returns).

The predecessor standard, APS-1, was issued in 1992 and had not been substantively revised since. The last 25 years has seen considerable change to the professional environment and to the public expectations around AUP engagements. Members and others also identified a need to ensure that an

AUP engagement could be clearly differentiated from other assurance engagements such as audits and reviews. These circumstances meant a significant update of the standard was warranted.

Revising APS-1 to reflect these changes has been undertaken by the New Zealand Regulatory Board (NZRB) of the New Zealand Institute of Chartered Accountants (NZICA). This is because AUP engagements currently sit outside the standard setting mandate of the New Zealand Auditing and Assurance Standard Board (NZAuASB). This is expected to change soon following the introduction of the *Regulatory Systems (Economic Development) Amendment Bill* on 11 July 2018. This Bill will amend the NZAuASB's legislative mandate to cover agreed-upon procedures engagements. In the meantime, the revision and reissue of APS-1 by NZICA ensures that an adequate, appropriate professional standard for AUP engagements is in place until such time as the NZAuASB can develop an appropriate standard of its own. In addition, the trans-Tasman harmonisation achieved during this revision will facilitate any future development work by them.

What is required now?

APS-1(revised) is different in both name and form from its predecessor and is now structured as a single engagement standard with included guidance, rather than a statement of multiple standards with accompanying non-mandatory guidance. While a significant portion of its content, especially around the principles that underlie the objectives of and reporting for an AUP engagement, will be familiar, all of its requirements have been updated, expanded and clarified. The aim is to provide members with the current support they need to conduct these engagements efficiently and effectively.

The reforms are based on the current Australian standard ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*, which complies with, but has been more recently updated than, the equivalent international standard ISRS 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*.

In particular, the new APS-1(revised) provides more detailed analysis of the objectives and outcomes of AUP engagements, especially as these compare to assurance engagements such as audits and reviews. These differences have implications for an AUP engagement's design, acceptance, reporting and for the use of professional judgement by a member which are now explained and enforced with relevant requirements.

The standard clarifies that the users, not the member, are responsible for ensuring that the engagement is designed to meet their needs. Preconditions that must be satisfied before a member is permitted to accept an AUP engagement include ensuring that both the member, the client and other identified users of the engagement clearly understand the engagement's purpose. Additional guidance for clarifying that understanding in circumstances where the users are not signing the engagement letter is included. The member also needs to ensure that users do not have

inappropriate expectations for the content of the report, particularly as regards the provision of an opinion. A written terms of engagement must now document this understanding and, if procedures are modified subsequently by the users, the new arrangements must be documented in writing via either a new letter or a modification to the previous one. Examples and specimen documentation provide further support to guide the member in these areas, especially in distinguishing the elements of an AUP engagement from one of assurance.

Other areas of change are:

- the inclusion of an independence requirement that can be relaxed to a lower level if users consider that is appropriate;
- the referral of members to existing PES 1¹ and PS-1² for their ethical and quality control requirements; and
- additional disclosure requirements in the report.

Where can I obtain the new standard?

The new APS-1(revised) can be downloaded from the [CA ANZ webpage](#) announcing the standard's release. That page also links to other supporting material such as a Perspective article explaining the key changes and some FAQs. It will be available in the online Members Handbook after 1 October 2018.

What are the likely future developments?

The IAASB is currently undertaking a project to revise its international standard on AUP engagements ISRS 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information* (ISRS 4400). The current timeline for the project expects the release of an exposure draft (ED) in late September 2018.

While it is expected that APS-1(revised) will ultimately be superseded by an NZAuASB standard, this will not occur until both the IAASB completes its revision project and the NZAuASB obtains its expanded mandate. In the meantime, CA ANZ will be using the feedback from its APS-1(revised) consultation to inform its response to the IAASB consultation and will also encourage its members to respond to the IAASB.

The progress of the IAASB project can be monitored via the [project page on the IAASB website](#). Meetings in March and August discussed the project and the ED is expected to be presented to the IAASB's September meeting for approval. Project material on the IAASB website includes a summary of the feedback to the IAASB's 2016 Discussion Paper, an issues paper and working drafts of ISRS 4400 ED, and its associated guidance, tabled at both meetings.

¹ Professional and Ethical Standard 1 (revised) *Code of Ethics for Assurance Practitioners*

² Professional Standard 1 *Quality Control*

Feedback Statement

An overview of the consultation process

The NZRB exposed its proposals for a revision of APS-1 in February 2018 for a three month comment period that closed on 21 May 2018. The proposed new standard was substantively based on the current requirements of Australia's ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*. It had been more recently updated, but was still compliant with, the equivalent international standard ISRS 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*.

The consultation noted that NZICA was of the view that the need for an improved New Zealand standard justified them taking this step. This view was informed by the fact that agreed-upon procedures are currently outside the standard setting mandate of the NZAuASB and that the IAASB was currently working on a revision to its agreed-upon procedures standard (ISRS 4400). Given the uncertain timing of both those changes, the revision and reissue of APS-1 by NZICA would ensure that an adequate, appropriate professional standard for AUP engagements was in place. Trans-Tasman harmonisation would also be achieved, which would be benefit any future development work. For more details see the comments in the Project Summary.

What was the response?

A total of 14 submissions were received to the consultation. 12 formal written submissions responded to all questions while two others indicated overall support for the proposals but provided no detailed comments. The submissions represented a good cross section of key stakeholders, representing both firms who perform, and regulators who use, AUP engagements. Thank you to those stakeholders who responded for the thoughtful and constructive comments provided via your responses to the questions posed in the Invitation to Comment (ITC).

All submissions were supportive of the NZRB's revision project and agreed that updated requirements for AUP engagements were needed in the current changing environment. There was a general consensus that the proposed standard clearly explained the nature of AUP engagements and the differences between an AUP and other types of engagements.

What was supported?

The ED proposed major change in the following key areas and these changes were widely supported by respondents. As a result, no changes have been made to the wording in the final standard on these issues.

1. Differentiating AUP engagements

The ED offered greater analysis of the difference between assurance and AUP engagements and the implications these have for engagement design, acceptance and reporting. All submissions considered that the information (in both the body of the standard and the Appendices) that differentiates AUP and assurance engagements was comprehensive and helpful.

2. Independence

The ED proposed introducing an independence requirement at the level applicable to 'other assurance engagements'. This is a less restrictive level than that required for an audit and the standard permits this level to be relaxed further if engagement users agree. Most submissions supported the independence requirements and did not think that the new requirements would impose significant extra costs on engagement performance. There was some support for the tighter independence requirements that are associated with audits and reviews, both as a means of enhancing engagement credibility and reducing complexity because many AUP engagements are performed on audit clients. However we have not amended the standard and members and users are free to choose to adopt the higher audit level of independence without that being considered a 'modification' of these requirements. This is because the structure of the independence requirements in PES 1(revised) means that audit level independence automatically meets that applying to 'other assurance engagements' because it is more onerous than these requirements.

3. Applying the Code of Ethics

The ED proposed directing members to the NZICA Code of Ethics for relevant ethical requirements and imposed those associated with 'other assurance engagements'. Most submissions supported this approach and did not expect that the tighter requirements would increase engagement costs.

4. Quality control and documentation requirements

The ED proposed directing members to the existing quality control standard PS-1 *Quality Control* for requirements dealing with engagement quality control and documentation. All submissions supported the inclusion of quality control requirements into the standard via reference to PS-1 and most were of the view that no additional costs would be incurred.

5. Agreeing the terms of engagement

The ED mandated the completion of a written terms of engagement to document the procedures that have been agreed. This approach was supported and the submissions also supported the inclusion of the additional content around member's roles and responsibilities, intended users, ethics and independence as well as the specimen engagement letter.

6. Form and content of the report of factual findings

The ED proposed enhanced disclosures to ensure differences between an AUP and an assurance engagement are clear. Additional disclosures addressing independence and the impact of laws and regulations on engagement reporting were also included.

All submissions agreed the revised engagement report, the associated guidance and the examples provided substantially improved guidance for this aspect of the

engagement. Most submissions agreed that it was appropriate to restrict the reports use to those users who are party to the engagement agreement.

Were there any concerns?

Not all the major changes proposed by the ED gained comprehensive support. In two areas, several members were concerned that new wording would be impractical in the New Zealand environment. This led us to modify the wording of the final standard and its associated guidance in these areas as follows:-

1. Users of AUP engagements

All members agreed that it was important for members to actively seek to understand the needs and objectives of the engagement's users. However several expressed concern about the extent of the requirement and how to implement it. Accordingly, the definition of "intended users" in the standard has been clarified and additional guidance added on this issue, drawn from proposals being developed by the IAASB.

2. Modifying the terms of engagement

All submissions agreed that changes to required procedures once the engagement commences needed the member to renegotiate the details with the engaging party. However the ED's wording was read by some as requiring a new engagement letter, which members thought was too onerous. Guidance has been added to clarify that a modification to the existing letter is an alternative in these circumstances.

Other key changes

The ITC also sought feedback on whether the ED's requirements needed revision in several topical areas that were identified during the preliminary phases of this project. These areas were:

1. Professional judgement

The ED clarified that professional judgement can be used in the acceptance, design and planning stages of an engagement but should not be used in the performance and reporting phases of an AUP engagement. This helps ensure that an AUP engagement is clearly distinguished from an assurance engagement. However most submissions argued that professional judgement had more of a role to play in AUP engagements than the ED currently allowed. They identified its use in the engagement acceptance and continuance phase, to address independence and ethical issues, to identify procedures that were appropriate for user needs, in the assessment of evidence for reporting and in making recommendations at the conclusion of the engagement.

It was decided not to amend the standard because the role of professional judgement in an AUP engagement is one of the key issues being examined by the IAASB in its revision of ISRS 4400. The forthcoming IAASB ED is expected to identify and discuss an expanded role for professional judgement. However while the international proposals are in development, it is inappropriate to alter the framework on which ASRS 4400 and the APS-1(revised) ED were based.

2. Areas for expanded guidance

Member feedback was also sought on the need for more guidance on issues surrounding the application of laws and regulations, the use of experts, and the use of multi-scope engagements. While most submissions agreed that addressing these areas would be helpful, they also concurred that they were not essential at this time.

In response, it was decided not to amend the standard for these issues. The use of experts and the impact of laws and regulations are within the scope of the IAASB's current AUP revision project and its forthcoming ED is expected to include wording that members will be able to provide feedback on.

Guidance on multi-scope engagements is also being considered by the IAASB but will be delayed until the ISRS 4400 update project concludes. This delay responds to feedback to its 2016 Discussion Paper which showed that constituents placed a higher priority on the ISRS 4400 revision. Again, while the international proposals are in development, it is inappropriate to include new requirements in the New Zealand standard.

3. Language and clarity

A number of submissions expressed concerns with various matters of wording, seeking to revise words for clarity. It was decided not to amend these words in the interests of maintaining the trans-Tasman harmonisation of APS-1 (revised) and ASRS 4400. However clarity of language and the specific use of terminology in AUP engagements is a particular focus of the IAASB project and so these issues will be revisited during the ISRS 4400 ED consultation. In the meantime we have provided clarity for some wording via the publication of FAQs explaining the requirements and addressing member's concerns.

Important information

This Project Summary and Feedback Statement has been compiled by the staff of CA ANZ on behalf of the New Zealand Regulatory Board for interested parties.

The content of this Project Summary and Feedback Statement does not constitute any advice.

Standards set by the NZRB are available in electronic format on the CA ANZ website.

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