

# Perspective

This is one of a series of articles where experts in assurance, reporting and regulatory matters discuss recent technical and policy developments in these areas.



## Giving New Zealand's Agreed Upon Procedures Standard a makeover

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March 2018

New Zealand's Agreed Upon Procedures (AUP) engagement standard APS-1 *Statement of Agreed Upon Procedures standards* (APS-1) recently celebrated the 25<sup>th</sup> anniversary of its first release. In that time we have seen an enormous growth and change in the types of services Chartered Accountants provide. These services have responded to the continual search by preparers and users for cost effective ways to add confidence to the information they are reporting and using. One key beneficiary of that growth and change has been Agreed Upon Procedures (AUP) engagements. This is because they offer focus and flexibility, allowing specific procedures to be targeted to specific information needs and reports issued on the credibility of that specific information. But an AUP engagement is not the same as an audit or review and cannot be used in their place. Knowing when to use, and not to use, an AUP engagement can be a complex judgement call for members, clients and regulators.

The objectives and outcomes of audits and reviews are clearly detailed in the relevant standards of the New Zealand Auditing and Assurance Standards Board (NZAuASB). Other publications (such as CA ANZ's publication [\*Audit, Assurance and Related Services\*](#), and the NZAuASB's [\*Assurance for Not-for-profits: A guide for funding organisations\*](#)) also provide further clarity. However APS-1 hasn't been substantively updated since it was released in 1992, and so it is now time for its makeover. Proposals to do this are contained in a new Invitation to Comment titled [\*Proposed revision of APS-1 Statement of Agreed Upon Procedures Standards\*](#).

It contains an Exposure Draft (ED) of a new APS-1(revised) *Agreed Upon Procedures Engagements to report factual findings*.

## What is an Agreed Upon Procedures engagement?

An AUP engagement involves three steps:

- the member, the entity engaging the member and any other intended users of the engagement agree to the specific procedures that are to be performed.
- after performing these specified procedures, the member produces a 'report of the factual findings' on this work which is distributed to the agreed users.
- the users then 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 on them. This is one of the key differences between an AUP engagement and an audit or review.

A common example of AUP engagements is a grant provider wanting to ensure the funds they provided were banked by the organisation and spent on the purpose for which the money was provided (such as purchasing equipment or paying staff). Regulators may also request an AUP engagement to ensure that a legislative return agrees 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).

## How is APS-1 changing – in broad terms?

The ED of APS-1(revised) has a different title and is significantly different in both form and content from its predecessor. It has made use of the current Australian standard ASRS 4400 *Agreed Upon Procedures Engagements to report factual findings* which has been more recently updated, but is still compliant with, the equivalent international standard ISRS 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*. As a result, the ED now includes more guidance on what an AUP engagement is and isn't. It also better explains how these fundamentals drive the acceptance, performance and reporting of the engagement and provides clear examples to direct current practice.

However not everything has changed. Some of the requirements of the existing APS-1 are still relevant and have been retained in the new standard. It also incorporates any relevant guidance that was formerly in *APG-1 Guideline on performance of an Agreed Upon Procedures Engagement* (allowing APG-1 to be withdrawn).

## The changes - let's get specific?

New or different requirements are being proposed by APS-1(revised) in the following key areas:-

- **Differentiating AUP engagements** –there is a more detailed analysis of differences between assurance and AUP engagements and the implications of that for engagement design, acceptance and reporting
- **Independence** – an independence requirement is included which can be modified if the member and the engaging party agree that a lower level of independence for the engagement is suitable
- **Ethics and quality control** – the professional and ethical obligations in APS-1 have been removed. Members are now directed to the NZICA Code of Ethics for relevant ethical requirements and to PS 1 *Quality Control* for requirements dealing with engagement quality control and documentation to avoid any duplication or inconsistency.
- **Users of AUP engagements** –more explicit obligations for members to understand the needs of other users of their final report (not just the needs of the client) are included
- **Preconditions for engagement acceptance** – enhanced requirements are proposed to ensure that only appropriate engagements are accepted
- **Terms of engagement** –a written terms of engagement, documenting the ‘agreed upon procedures’, is mandated and changes to those procedures without the preparation of a new written document is not permitted.
- **Professional judgement** –the role professional judgement plays in the acceptance, planning, performance and reporting of an AUP engagement has been clarified
- **Form and content of the report of factual findings** – enhanced disclosures clarify the differences between an AUP and an assurance engagement and communicate the independence level adopted and the impact of laws and regulations on the engagement reporting.

## Why not wait for the IAASB

Followers of the activities of the International Auditing and Assurance Standards Board (IAASB) will be aware that they are also engaged in a [project to update ISRS 4400](#). They issued a discussion paper (DP) in late 2016, [Exploring the demand for agreed-upon procedures engagements and other services, and the implications for the IAASB's international standards](#), which set out the key features of an agreed-upon procedures engagement and explored how they are undertaken. It also sought feedback on the extent to which members find the existing IAASB requirements and guidance helpful or challenging.

The DP closed for comment in March 2017 and an IAASB working group is currently analysing responses. Decisions taken at the IAASB's September 2017 meeting have directed staff to develop an ED for release in late 2018, with plans for a new standard by late 2019 that would be operative in 2020. In the meantime the IAASB has published a new report [Agreed Upon Procedures- A growth and value opportunity](#) to help practitioners, clients and regulators understand the nature and benefits of AUP engagements. It includes case studies that showcase some of the more common financial and non financial AUP engagements being performed worldwide.

Given this timing, the age of the existing standard, and the fact that Australian standard has already implemented many of the likely IAASB reforms, updating APS-1 now is considered the best option for New Zealand's members. When the NZAuASB gains a mandate for non-assurance engagement standards, they will be able to adopt this standard.

## Getting involved

To make sure these changes are effective, practical and workable for both practitioners and users of AUP engagements, we need feedback. So please, have your say on the [Invitation to Comment](#) and encourage clients and regulators that you work with on AUP engagements to have their say too. Comments close on **21 May 2018** and, subject to feedback, intend that a new standard is in place by early 2019 at the latest.

To make it easier to comment, the ITC includes a comparison table which identifies which new requirements have been included and which requirements of the old APS -1 (and associated guidance in APG-1) have been retained. It also poses a list of questions on the significant issues. While we'd prefer readers to answer all of these, an email on any issue that is relevant to you is also welcome. Contact details are included in the ITC.