

## Growing Your Practice with AUP Engagements

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The proportion of small and medium-sized practices (SMPs) undertaking audits of small and medium-sized entities (SMEs) in many jurisdictions has reduced in recent years, partly as a result of the introduction of, or increase to, audit thresholds. For example, the [Financial Reporting Council reported in “Key Facts and Trends in the Accountancy Profession”](#) that the number of registered audit firms in the UK fell by 11.2% between 2009 and 2013 and by 3.8% during 2013. In June 2013, the European Union (EU) adopted a new Accounting Directive—[EU Directive 2013/34/EU](#), which contains new thresholds for small, medium, and large entities (Article 3). This Directive not only affects accounting and reporting requirements but also impacts the mandatory audit requirement. The Directive must be transposed into the national legislation of each Member State by July 20, 2015 at the latest. The changing European and global landscape has direct implications for practitioners, particularly SMPs, and will likely result in greater demand for non-audit services.

### What non-audit services are available for SMEs?

There are a number of non-audit services available for SMEs, including review, compilation, other assurance, and engagements to perform agreed-upon procedures. The choice of service will depend on the circumstances for each individual entity and requires careful consideration. A brief summary of the options and the applicable [international standard](#) are as follows:

- Review Engagements: the practitioner provides a limited assurance report following a review of the entities historical financial statements. This can be based on the International Auditing and Assurance Standards Board (IAASB)'s *International Standard on Review Engagements (ISRE) 2400 (Revised)*;
- Compilation Engagements: the practitioner assists management in preparing and presenting historical financial information and issues a report stating that no assurance is provided. This can be based on the IAASB's International Standard on Related Services (ISRS) 4410, *Compilation Engagements*;
- Other Assurance Engagements: the practitioner provides either reasonable or limited assurance under the IAASB's International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*; and
- Agreed-Upon Procedures (AUP) Engagements: the practitioner provides a report based on factual findings regarding financial information—no assurance is expressed. The report is not distributed publicly—it is restricted to those parties that have agreed to the procedures. The engagement can be based on the IAASB's ISRS 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*.

[IFAC's Small and Medium Practices \(SMP\) Committee](#) has consistently advocated, most recently in its [response](#) to the IAASB's Consultation Paper, *The IAASB's Proposed Strategy for 2015-2019 and Proposed Work Program for 2015-2016*, for continued focus on updating, and where necessary expanding, the suite of standards supporting non-audit engagements for SMEs. The committee welcomed the IAASB's revision of its standards on review and compilation engagements, and recently issued a [Guide to Review Engagements](#) as well as ancillary resources and tools to support the revised review standard.

### What are agreed-upon procedures?

AUP engagements have the potential to be an attractive and fast growing service offering to SMEs. Clients may not need an audit, but may greatly benefit from an AUP engagement to satisfy banking or

vendor needs (for example, to advance a business transaction, or verify to management that certain financial reporting processes and controls are operating effectively).

According to ISRS 4400, the objective of an AUP engagement is to carry out procedures of an audit nature to which the practitioner, the entity, and any appropriate third parties have agreed and to report on factual findings. These engagements may entail the practitioner performing certain procedures concerning individual items of financial data (for example, accounts payable, accounts receivable, purchases from related parties, and sales and profits of a segment of an entity), a financial statement (for example, a balance sheet) or even a complete set of financial statements. While directed toward engagements regarding financial information, ISRS 4400 may provide useful guidance for engagements regarding non-financial information, provided the auditor has adequate knowledge of the subject matter in question and reasonable criteria exist on which to base their findings.

Examples of AUP engagements, both on financial and non-financial information, include:

- Due diligence when buying or selling a business
- Verifying cash balances
- Checking security balances
- Income tax provisions
- Accounts receivable/payable processes
- Special reviews of loan portfolios
- Reviews of internal control and environmental management systems
- Royalty agreements compliance
- Employer compliance/payroll audits
- Purchasing department compliance

Because the practitioner is simply providing a report of the factual results of the AUP, no assurance is expressed. Instead, users of the report assess for themselves the procedures and findings reported by the practitioner and draw their own conclusions from the work. For example, the practitioner may be engaged to help the client evaluate the validity of their accounts payable at a certain date. Procedures may comprise:

1. Checking the addition of the trial balance of accounts payable prepared by the client at a specific date and comparing the total to the balance in the related general ledger account.
2. Comparing a list of major suppliers and the amounts owing at a specific date to the related names and amounts in the trial balance.
3. Obtaining suppliers' statements or requesting suppliers to confirm balances owing at a specific date, and comparing such statements or confirmations to the amounts in the trial balance. For amounts that do not agree, obtaining and reviewing reconciliations from the client.

### **[The International Auditing and Assurance Standards Board \(IAASB\)](#)**

The IAASB's *Proposed Work Plan for 2015-2016* includes the potential revision of ISRS 4400, *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*. The plan also recognizes the use of "hybrid" engagements in some jurisdictions as a means of addressing the emerging needs of SMEs, among others. Hybrid engagements use a combination of procedures derived from review, compilation, and AUP engagements. Accordingly, the IAASB will explore these evolving types of engagements to consider whether standard setting or other action may be appropriate.

The IAASB expects to commence discussions for this initiative in mid-2015. This will allow them time to understand the market needs in this area and assess the underlying conceptual considerations on the use of “hybrid” engagements.

#### **What role will the SMP Committee play?**

The committee sees its role as two-fold. First, to assist the IAASB as it revises ISRS 4400 and its exploration of hybrid engagements. Second, to develop, and facilitate the sharing of, resources and tools designed to help practices provide high quality agreed-upon procedures engagements. With regard to the latter, the committee recently closed a [poll to investigate](#) the need for the development of new resources and tools.

#### **Learn more & join us at the World Congress**

To help practices provide non-audit services IFAC and its [member organizations](#) provide a wealth of [Audit and Assurance resources](#) on the Global Knowledge Gateway.

IFAC and Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (CNDCEC) invite you to join us at the World Congress of Accountants 2014 in Rome for “Assurance Services for SME Reporting (Parallel Session 1.7). Learn more at [www.wcoa2014rome.com](http://www.wcoa2014rome.com).

#### **Join the conversation below**

**What agreed-upon procedure engagements do you offer your SME clients? Have you undertaken “hybrid” engagements to meet their needs?**