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Basis for Conclusions ASRS 4400 Agreed-Upon Procedures Engagements

Prepared by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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Basis for Conclusions ASRS 4400 *Agreed-Upon Procedures Engagements* has been developed by the Auditing and Assurance Standards Board (AUASB) to provide a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASRS 4400 *Agreed-Upon Procedures Engagements*.

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BASIS FOR CONCLUSIONS

ASRS 4400 *Agreed-Upon Procedures Engagements*

This Basis for Conclusions is issued by the Auditing and Assurance Standards Board (AUASB). It provides a background to and rationale for the development and approval of the Standard by the AUASB. The Basis of Conclusions relates to, but does not form part of, ASRS 4400 *Agreed-Upon Procedures Engagements*, and is not a substitute for reading the Standard.

Background

1. The International Auditing and Assurance Standards Board (IAASB) issued ISRS 4400 *Agreed-Upon Procedures Engagements* in February 2020. This project was initiated in response to changes that have occurred in the business environment that has driven the demand for AUP engagements on both financial and non-financial subject matters.
2. Further details regarding the development of the International Standard on Auditing (ISA), including the Basis for Conclusions prepared by the Staff of the IAASB, can be found on the IAASB's website: [ISRS 4400 Basis of Conclusions](#).
3. In accordance with its mandates under section 227 of the *Australian Securities and Investments Commission Act 2001* and the Financial Reporting Council's (FRC) *Strategic Direction*, the AUASB's policy is to use, as appropriate, the IAASB's standards as a base from which to develop Australian Auditing Standards, unless there are compelling reasons not to do so; and to amend the International standards only when there are compelling reasons to do so.
4. In line with this direction, the AUASB issued Exposure Drafts ED 01/20 ASRS 4400 *Agreed-Upon Procedures Engagements* with comments due 20 April 2020. No Australian specific amendments were proposed in the Exposure Draft, but there were several Australian specific questions.
5. The AUASB approved a revised Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements* in September 2020.

Major Issues raised by respondents on Exposure and AUASB consideration of issue

6. The adoption of international standards and any changes to adopted standards are governed by the AUASB's policies regarding convergence with IAASB standards and harmonisation with the standards of the NZAuASB. The policies and procedures incorporate "compelling reasons" tests which must be used to support changes to the international standards. Changes are made only when the AUASB is satisfied that there are persuasive reasons to do so. The major issues raised by respondents on exposure related to independence, professional judgement, restriction on use of the AUP report, the term practitioner and a table of differences between and assurance engagement and an AUP engagement.

Independence

Background

7. Extant ASRS 4400 has an independence requirement for the practitioner equivalent to the independence requirement applicable to "other assurance engagements". In the absence of independence requirements for AUP engagements and there being no criteria against which the practitioner can determine whether the practitioner is, or is not, independent for the purpose of the AUP engagement, ED 01/20 did not include a precondition for the practitioner to be independent when performing an AUP engagement or a requirement for the practitioner to determine independence.

8. To enhance transparency, ED 01/20 required certain disclosures in the AUP report depending on whether the practitioner is required to be independent and whether the practitioner is, indeed, independent. There is application material in paragraphs A37 and A38 to assist practitioners in complying with the engagement acceptance and continuance requirements in paragraph 22 and agreeing the terms of engagement requirements in paragraph 22. The application material explains that the practitioner's knowledge of certain matters may indicate that a discussion with the engaging party as to whether compliance with certain identified independence requirements is appropriate, for the purpose of the AUP engagement, even when the practitioner is not required by relevant ethical requirements, law or regulation, or other reasons to comply with independence requirements. If so, the practitioner may agree with the engaging party, in the terms of engagement, to comply with the relevant independence requirements for the purpose of the AUP engagement. The corresponding reporting requirements in paragraph 30(l) depend on whether the practitioner is:
- Required to comply with independence requirements (regardless of whether the requirements are "external" or agreed to in the terms of engagement); or
 - Not required to comply with independence requirements.

Summary of Comments

9. 7 of the 8 respondents to ED 01/20 supported the independence and reporting requirements of ED 01/20.
10. One respondent to ED 01/20 did not support the independence requirements and reporting of ED 01/20 but instead supported the extant ASRS 4400 requirement for the practitioner to be independent equivalent to the independence requirement applicable to 'other assurance engagements', unless the engaging party has explicitly agreed to modified independence requirements.

AUASB Decision

11. Based on the balance of views expressed by respondents to ED 01/20 and the Board's discussions, the AUASB ultimately supports the independence requirements and reporting in ED 01/20 on the basis that:
- the findings are capable of being objectively verified, and no opinion is expressed by the practitioner;
 - the APESB Code does not require a practitioner performing non-assurance engagements (such as AUP engagements) to be independent and the Auditing Standards should not create such a requirement; and
 - ASRS 4400 recognises that the engaging party and practitioner may still agree to independence, or laws/regulations may require it.
12. While the AUASB supports not including a precondition for the practitioner to be independent, the AUASB does however consider that should be an explicit reference to the fundamental principles of the Code of Ethics when reporting on AUP engagements, in particular as a minimum the practitioners' requirement to be objective. While such a reference to objectivity is included in paragraph A14 of ASRS 4400, the AUASB agreed to modify the requirements of the Agreed-Upon Procedures Report to include a specific reference to objectivity (Aus 30(k) of ASRS 4400), and a corresponding update to the example illustrative Agreed-Upon Procedures Reports (Appendix 2 of ASRS 4400).
13. The AUASB also supports the example engagement letter in ED 01/20 including example wording where the practitioner is independent. Such example wording provides for consistency in practice (Appendix 1 of ASRS 4400).

Professional Judgement

Background

14. Extant ASRS 4400 explicitly states that the assurance practitioner will not be required, during the course of the engagement, to exercise professional judgement in determining or modifying the procedures to be performed. ED 01/20 requires the practitioner to exercise professional judgment in accepting, conducting and reporting on an agreed-upon procedures engagement, taking into account the circumstances of the engagement.

Summary of Comments

15. 7 of the 8 respondents to ED 01/20 supported the ED in relation to professional judgment.
16. One respondent considered that the execution of procedures in an AUP engagement should not involve professional judgement and that the requirement to apply professional judgement in “conducting an agreed upon procedures engagement”, has the unintended consequence of conveying the exact opposite (i.e. that professional judgement is required in performing the procedures). That respondent did however agree that professional judgement is applied in various aspects of an AUP engagement and supported the application material of ASRS 4400.

AUASB Decision

17. The AUASB considers that ASRS 4400 needs to be read holistically, that is the definitions, requirements and application material in relation to professional judgement needs to be read together. A complete read of paragraphs 13(b), 13(j), 18, 22(c), 24(i), A21-A23 of ED 01/20 will lead to a very *limited* exercise of professional judgment in the performance of procedures, which is closely aligned to extant ASRS 4400.
18. To clarify where, and how, professional judgement is exercised in an AUP engagement without implying that professional judgement is ever “suspended” or “prohibited”, ED 01/20 contains the following in relation to professional judgement:
 - Examples and subheadings in application material to demonstrate how professional judgement may be exercised when accepting, conducting and reporting on the AUP engagement.
 - Clarifying, in application material examples, that professional judgement is exercised in determining an appropriate action or response resulting from performing the procedures.
 - Application material explaining why professional judgement is not expected to be exercised in the performance of the procedures.
19. While ED 01/20 is more subtle regarding professional judgement than extant ASRS 4400, the AUASB considers that a holistic read of ED 01/20 results in the same outcome. On this basis, the AUASB supports ED 01/20 in relation to the exercise of professional judgement and no Australian amendments to ISRS 4400 have been made in relation to professional judgement.

Restriction on Use

Background

20. Extant ASRS 4400 requires the practitioner’s report to include a statement that the use of the agreed upon procedures report is restricted to those parties identified in the report, who have agreed to the procedures to be performed or were identified in the terms of the engagement. ED 01/20 does not restrict the AUP report to parties that have agreed to the procedures to be performed, but rather the report contains a statement identifying the purpose of the report and that the report may not be suitable for another purpose.

Summary of Comments

21. 6 of the 8 respondents to ED 01/20 support the ED in relation to restriction on use/distribution.
22. 2 respondents to ED 01/20 support the extant ASRS 4400 restriction on use of an AUP report to those parties that have either agreed to the procedures to be performed or have been specifically included as users in the terms of engagement.

AUASB Decision

23. At the time of the AUASB response to the IAASB on the IAASBs ED-ISRS 4400, the AUASB considered that the use of an AUP report should be restricted to parties that have agreed to the procedures performed or have been identified as intended users in the report. The rationale for the IAASB not having this restriction in the standard is because in some jurisdictions, it may be possible to restrict the use of the AUP report but not its distribution and in other jurisdictions, it may be possible to restrict the distribution of the AUP report but not its use. Considering the IAASB's rationale, the AUASB's original position, consideration of the matters described in paragraph 25 of this Basis of Conclusions and that the AUASB has no evidence that Australian current practices are not working, the AUASB considers that there are compelling reasons to amend the proposed standard to restrict the use of the agreed upon procedures report to intended users as identified in the agreed-upon procedures report.
24. The AUASB notes that while the application material to ED 01/20 uses the terms restriction on use/distribution together, there is a difference between restriction of use and restriction of distribution. The AUASB, when they last revised the Australian AUP standard, made a distinction between the use of an AUP report and distribution of such a report. This distinction was deliberately included in the requirements of the Australian standard, with reliance on that report effectively restricted to the intended users identified, even if the report is distributed to other parties. The purpose of this distinction was not to prevent distribution of a report per se, but to deter the use of that report by those other than the intended users who are identified in the terms of engagement. Restriction of the distribution of a report is ultimately a risk management decision for the practitioner and the AUASB did not support a requirement to restrict distribution as this is often not practically possible. The AUASB continues to support the position of no requirement to restrict distribution, however, the AUASB supports the application material in relation to restriction of distribution as this is seen as beneficial where practitioners may determine to restrict distribution.
25. A restriction of use requirement is an established practice in Australia and has been included in the extant ASRS 4400 for many years. The reasons the AUASB has decided to restrict the use of the agreed upon procedures report to intended users as identified in the agreed-upon procedures report include:
 - (a) Since the AUP engagement is only required to be agreed with the engaging party, a restriction of use requirement is seen to be a public interest safeguard. While the international standard addresses public interest needs by allowing flexibility in this regard (owing to jurisdictional differences), the AUASB considers that from a public interest perspective, leaving the determination of whether or not to include such a restriction to practitioner's judgement, may result in inconsistencies in practice. Variation in practice diminishes the effectiveness of reporting.
 - (b) Such a restriction limits the likelihood that the AUP report will be used for the wrong purpose. There are multiple requirements and application material paragraphs in ED 01/20 that demonstrates that an AUP engagement is for a very specific purpose with an intended audience and accordingly it is reasonable that such a report shouldn't be expected to be used by others.
 - (c) While the international standard facilitates a restriction on use paragraph being determined by practitioners, there is no requirement to restrict use. The AUASB is aware that some users may perceive that an AUP engagement provides some sort of

assurance. There is no assurance provided in an AUP engagement. A restriction of use prevents uninformed users from relying on a report being inappropriately used as a form of assurance. To further clarify the differences between an AUP engagement and an assurance engagement, the AUASB have inserted a table of differences into the revised ASRS 4400, refer paragraphs 30-32 of this Basis of Conclusions Document.

26. The AUASB made amendments to ISRS 4400 in relation to restriction on use by introducing the following Australian amendments: paragraphs Aus 22(f), Aus 24(k), Aus 30(s), Aus A53.1, Aus A54.1, Appendix 1 and Appendix 2.

Practitioner

Background

27. The extant ASRS 4400 definition of assurance practitioner covers those in industry, commerce and the public sector who wish to undertake these engagements. ED 01/20 uses the term practitioner which is defined as *'The individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm). Where this ASRS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "practitioner" is use'*.

Summary of Comments

28. 2 of the 8 respondents to ED 01/20 considered that the definition of practitioner in ED 01/20 could be interpreted as being narrower than the extant ASRS 4400 definition of assurance practitioner, particularly with reference to the current definition of practitioner in the AUASB Glossary of Terms. Those respondents supported the use of the term practitioner rather than the extant ASRS 4400 term assurance practitioner as the latter is seen to be confusing for an engagement that conveys no assurance. The respondents were seeking clarity that the term practitioner defined in ED 01/20 covers those in industry, commerce and the public sector who wish to undertake these engagements.

AUASB Decision

29. Based on the views expressed by respondents to ED 01/20 and the Board's discussions, the AUASB considers that the definitions of practitioner and engagement partner in ED 01/20 are broad enough to cover those in industry, commerce and the public sector. The AUASB recognises that the previous definition of practitioner* as defined in the IAASB and AUASB glossary is limiting. The revised ASRS 4400 will be the only AUASB standard where the term practitioner is used, accordingly, the AUASB agreed to update the definition of practitioner as defined in the glossary to reflect the definition as used in ED 01/20.

Table of Differences Assurance Engagements and Agreed-Upon Procedures Engagements

Background

30. At the time of the AUASB response to the IAASB on ED-ISRS 4400, the AUASB commented that the table of differences between assurance engagements and Agreed-Upon procedures engagements as currently included in extant ASRS 4400 is particularly beneficial to practitioners and users and could be invaluable to practitioners with a clear public interest benefit of keeping a clear distinction between these service offerings and avoiding any potential creep of an AUP turning into a quasi-assurance engagement.

* professional accountant in public practice

Summary of Comments

31. 1 of the 8 respondents to ED 01/20 considered that potential for “misuse” of AUP engagements as ‘assurance light’ is compounded by the proposed withdrawal of the table of differences as contained in the extant ASRS 4400.

AUASB Decision

32. While the introductory paragraphs 4-6 of proposed ASRS 4400 makes some distinction between assurance engagement and AUP engagements, the AUASB considers that a table of differences between assurance engagements and Agreed-Upon procedures engagements as currently included in extant ASRS 4400 is particularly beneficial to practitioners and users and could be invaluable to practitioners with a clear public interest benefit of keeping a clear distinction between these service offerings and avoiding any potential creep of an AUP turning into a quasi-assurance engagement. As such [Aus] Appendix 3 Differentiating Factors between Agreed-Upon Procedures Engagement and Assurance Engagements has been included in revised ASRS 4400.

Conclusion

33. In reaching its conclusions, the AUASB considered all stakeholders’ feedback, including the significant issues outlined above.
34. The AUASB voted to approve and issue ASRS 4400 *Agreed-Upon Procedures Engagements* with the Australian amendments as considered in paragraphs Aus 22(f), Aus 24(k), Aus 30(k), Aus 30(s), Aus A53.1 and Aus A54.1, Appendix 1 and Appendix 2 and [Aus] Appendix 3.

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