



**Australian Government**  
**Auditing and Assurance Standards Board**

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## **Consultation Paper**

December 2018

Comments requested by: 18 February 2019

# **Agreed-Upon Procedures Engagements**

**Commenting on this Consultation Paper**

Comments are invited on the questions contained in this Consultation Paper by 18 February 2019. Comments should be addressed to:

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**Obtaining a Copy of this Consultation Paper**

This Consultation Paper is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au).

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ISSN 1839-3500

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## Introduction

1. The AUASB is consulting on the recently issued IAASB Exposure Draft on Proposed ISRS 4400 *Agreed-Upon Procedures Engagements* (ED 4400). The IAASB issued ED 4400 in November 2018 for a 120-day exposure period closing 15 March 2019.
2. The AUASB is seeking feedback from its stakeholders to inform the AUASB submission to the IAASB on ED 4400.

## Background

### IAASB

3. Agreed-Upon Procedures (AUP) Engagements are widely used and the demand for them continues to grow. Extant ISRS 4400 was developed over 20 years ago and has not kept pace with the significant changes that have occurred in the business environment driving the demand for AUP engagements on both financial and non-financial subject matters. In September 2017, the IAASB approved a project proposal to revise extant ISRS 4400 to address issues relating to AUP engagements.
4. The key changes and concepts proposed in Exposure Draft ISRS 4400 *Agreed-Upon Procedures Engagements* include:
  - Professional judgment — new requirement and application material on the role of professional judgment in an AUP engagement.
  - Independence — new requirements and application material on disclosures in the AUP report relating to the practitioner's independence (or lack thereof).
  - Engagement acceptance and continuance considerations — new requirements and application material addressing conditions for engagement acceptance and continuance, including guidance on what constitutes appropriate (or inappropriate) terminology to describe procedures and findings in AUP reports.
  - Use of a practitioner's expert — new requirements and application material to address the use of the work of a practitioner's expert in an AUP engagement, including the practitioner's responsibilities when using the work of an expert, and consideration of whether it is appropriate to include references to the expert in an AUP report.
  - AUP report restrictions — clarification that the AUP report is not restricted to parties that have agreed to the procedures to be performed unless the practitioner decides to do so, and new application material on the practitioner's considerations if the practitioner wishes to place restrictions on the AUP report.
  - ED ISRS 4400 also addresses non-financial subject matters, and includes new definitions and new requirements and application material on written representations, recommendations arising from the performance of AUP engagements, and documentation, among others.

5. ED-4400 contains a number of paragraphs relating to quality control. The IAASB is currently undertaking a project to revise ISQC 1.<sup>1</sup> The paragraphs in ED-4400 relating to quality control are subject to change pending the IAASB's revisions, accordingly these paragraphs are grey shaded in the Exposure Draft.
6. Further details can be found on the IAASB's website: <http://www.ifac.org/auditing-assurance>
  - Explanatory Memorandum – includes details on the background and the process adopted by the IAASB in developing ED ISRS 4400 and the significant changes proposed. The Explanatory Memorandum is found at the beginning of the Exposure Draft, see link below.
  - [Exposure Draft, ISRS 4400 Agreed-Upon Procedures Engagements IFAC](#)

## **AUASB**

### *Process for Public Consultation*

7. The AUASB is consulting on ED-4400 in accordance with the current\* Australian Standards-Setting Process. Whilst the AUASB trialled a new process on the Australian exposure of Proposed ISA 315 *Identifying and Assessing the Risks of Material Misstatement*, involving the concurrent release of the Australian ED with the international ED, it has yet to analyse the outcomes of this trial and decide on the way forward.
8. Under the existing Australian Standards-Setting Process, the AUASB takes input received from Australian stakeholders into account when preparing its submissions to the IAASB. The AUASB makes formal submissions on Exposure Drafts issued by the IAASB to contribute to the setting of international auditing and assurance standards. This public consultation on ED 4400 will inform the AUASB submission to the IAASB on ED ISRS 4400.

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<sup>1</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

\* Current Standard Setting Process:

1. IAASB's ED is released on the AUASB website and issue a news alert requesting feedback;
2. AUASB conduct extensive outreach with Australian stakeholders;
3. Feedback from stakeholders is used as input into the AUASB's submission to the IAASB.
4. When the final International Standard is issued it is converted into an Australian ED including any known changes for compelling reason which have been identified through the outreach already conducted. The Australian ED is issued for periods ranging from 30 – 90 days depending on the nature of the ED.
5. The AUASB consider the feedback received on exposure from the Australian stakeholders and any additional Australian amendments are subject to the compelling reason test.
6. The AUASB consider if the final Australian standard needs to be re-exposed. However, this would only be if there were significant changes from the ED and this would be very rare.
7. The Australian Standard is approved by the AUASB.

*The impacts from the Proposed International Standard ISRS 4400 Agreed-Upon Procedures Engagements in Australia*

9. Australian ASRS 4400 had previously been revised. ED ISRS 4400 now considers many of the aspects contained in extant ASRS 4400, including:
  - ASRS 4400 was not limited to procedures regarding “financial information”.
  - ASRS 4400 requires that assurance practitioners satisfy themselves that the engagement team and any experts collectively have the competence, capabilities and resources to perform the agreed-upon procedures. ASRS 4400 requires that assurance practitioners take responsibility for the direction, supervision and performance of the engagement and the accurate reporting of factual findings. Furthermore when using the work of others, the assurance practitioner evaluates the adequacy of their work and the findings communicated.
  
10. ED ISRS 4400 largely aligns with ASRS 4400, with the main points of difference being:
  - **ASRS 4400 restricts the 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 engagement letter. A restriction on use paragraph is required to be included in an AUP report. **ED ISRS 4400 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.
  - **ASRS 4400 has an independence requirement** for the practitioner **equivalent to the independence requirement applicable to “other assurance engagements”**, unless the engaging party has explicitly agreed to modified independence requirements. If modified independence is agreed, the level of independence applied is described in the AUP report. **ED 4400 does not require independence** for an AUP engagement and the AUP report includes statements addressing circumstances when the practitioner is (or is not) required to be independent, and whether the practitioner is (or is not) independent.
  - ASRS 4400 applies to AUP engagements undertaken by an **assurance practitioner**. Assurance practitioner is a term used to indicate that the work is required to be performed by a person who has adequate training, experience and competence in conducting assurance engagements, and is a different benchmark than the term practitioner referred to in ED 4400.
  - One of the most significant attributes of an AUP engagement is that there should not be any subjectivity in both the procedures and the resultant factual findings. Applying **judgement** requires a level of subjectivity, so the AUASB considers that it is not appropriate for the practitioner to exercise professional judgement when conducting agreed-upon procedures. 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. The ISRS 4400 draft contains similar requirements and guidance on this matter as the extant ASRS 4400, but uses different wording across several paragraphs (13(b), 13(j), 18, 20(b), 26, A14-A16) to eventuate in this outcome.

## Seeking input from Stakeholders

11. In accordance with its' mandates under section 227 of the ASIC Act 2001 and the Financial Reporting Council's (FRC) Strategic Direction, the AUASB's policy is to adopt the IAASB's standards, unless there are compelling reasons not to do so; and to amend the standards only when there are compelling reasons to do so. The AUASB's principles of convergence with the ISAs, as well as its policy of harmonisation with the New Zealand auditing standards, can be found on the AUASB's website:

*[http://www.auasb.gov.au/admin/file/content102/c3/Aug14\\_IAASB\\_NZAuASB\\_Principles\\_of\\_Convergence\\_and\\_Harmonisation.pdf](http://www.auasb.gov.au/admin/file/content102/c3/Aug14_IAASB_NZAuASB_Principles_of_Convergence_and_Harmonisation.pdf)*

12. Compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate in maintaining or improving audit quality in Australia. Compelling reasons are further guided by the AUASB's policy of harmonisation with the standards of the New Zealand Auditing and Assurance Standards Board (NZAuASB).
13. The IAASB has asked specific questions on exposure of ED 4400. Stakeholders are encouraged to provide feedback to the AUASB on any of these specific questions, both supportive or critical of the proposals. The AUASB is in particular seeking feedback on the matters raised in paragraph 10 of this Consultation paper to further inform their submission to the IAASB. A link to the IAASB's questions on exposure can be found in paragraph 6 above and in the appendix to this Consultation Paper.

## General

14. This consultation paper is open to stakeholders for a **65 day comment period** closing on 18 February 2019. This is to allow stakeholders time to respond to the AUASB on the questions contained in this consultation document, and for the AUASB to conduct further outreach and to collate all feedback into our submission to the IAASB due on 15 March 2019.
15. At the completion of this consultation period, the AUASB will consider stakeholders' submissions:
- (a) to inform us when developing our response to the IAASB on their ED; and
  - (b) to inform the AUASB of potential compelling reason that may be required when we expose the final IAASB standard as an exposure draft in Australia.

## Other Outreach Activities

16. In addition to this consultation paper, during January 2019, the AUASB will conduct targeted outreach. Additionally, during the second week of February 2019 the AUASB will conduct educative webinars. The AUASB will not be holding roundtable discussions on this topic.

## Website Resources

17. The AUASB welcomes stakeholders' input to the development of Australian Auditing Standards and regards both supportive and critical comments as essential to a balanced review of the proposed standards. Stakeholders are encouraged to access the websites of the AUASB and the IAASB to obtain further information.

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## Appendix

### Questions from the IAASB's Exposure Draft Proposed ISRS 4400 Agreed-Upon Procedures

#### *Overall Question*

##### *Public Interest Issues Addressed in ED-4400*

- 1) Has ED-4400 been appropriately clarified and modernised to respond to the needs of stakeholders and address public interest issues?

#### *Specific Questions*

##### *Professional Judgment*

- 2) Do the definition, requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role professional judgment plays in an AUP engagement?

##### *Practitioner's Objectivity and Independence*

- 3) Do you agree with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)? If not, under what circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the IAASB would discuss the relevant independence considerations with the IESBA?
- 4) What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the [Explanatory Memorandum](#), and the related requirements and application material in ED-4400? Do you believe that the practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.

##### *Findings*

- 5) Do you agree with the term "findings" and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED-4400?

##### *Engagement Acceptance and Continuance*

- 6) Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED-4400, appropriate?

##### *Practitioner's Expert*

- 7) Do you agree with the proposed requirements and application material on the use of a practitioner's expert in paragraphs 28 and A35-A36 of ED-4400, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED-4400?

*AUP Report*

- 8) Do you agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?
- 9) Do you support the content and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 2 of ED-4400? What do you believe should be added or changed, if anything?

***Request for General Comments***

- 10) In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:
  - (a) Translations—recognizing that many respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-4400.
  - (b) Effective Date—Recognizing that ED-4400 is a substantive revision and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for AUP engagements for which the terms of engagement are agreed approximately 18–24 months after the approval of the final ISRS. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISRS. Respondents are also asked to comment on whether a shorter period between the approval of the final ISRS and the effective date is practicable.