



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4.2.0**
Meeting Date: 4/5 December 2018
Subject: ED ASRS 4400 Agreed-Upon Procedures Engagements
Date Prepared: 20 November 2018
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Action Required

For Information Purposes Only

Agenda Item Objectives

1. For the AUASB to consider, provide input into and approve as appropriate:
 - (a) Exposure Draft 05/18 ASRS 4400 *Agreed-Upon Procedures Engagements* (ED 05/18) (Agenda Item 4.2.2.); and
 - (b) Explanatory Memorandum accompanying ED 05/18 (Agenda Item 4.2.1).
 - (c) Provide input into the question around Assurance Practitioner and Practitioner as outlined in paragraph 7 below.

Background

1. The IAASB issued Exposure Draft ISRS 4400 (Revised) *Agreed-Upon Procedures Engagements* in November 2018, with comments due by 15 March 2019.
2. The AUASB makes formal submissions on Exposure Drafts (ED) issued by the IAASB to contribute to the setting of international auditing and assurance standards.
3. The AUASB agreed at its meeting on 17 April 2018, to trial issuing EDs in Australia concurrently with the IAASB's ED process.
4. The AUASB has been tracking the progress of the revision of ISRS 4400 and has noted 3 main areas of concern (brought forward from previous meetings, with no new additions):

(a) Professional Judgement

The basis for concern

One of the differentiating factors between an agreed-upon procedures engagement and an assurance engagement is the extent to which the assurance practitioner's professional judgement is exercised in selecting

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procedures. The major distinguishing feature between assurance engagements and AUPs, widely agreed, is that:

- in an agreed-upon procedures engagement, professional judgement may be exercised in assisting the engaging party to identify procedures when agreeing the terms of the engagement, but only professional competence and skill is exercised in conducting the procedures and in this way adds value to the engagement; while
- in an assurance engagement, professional judgement is exercised in both selecting and conducting procedures.

Therefore, one of the most significant attributes of an agreed-upon procedures engagement is the lack of 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 be appropriate for the practitioner to exercise professional judgement when conducting agreed-upon procedures.

AUASB technical group comment on Proposed ISRS 4400:

On a close reading of the draft standard, the AUASB technical group can see a logical build to the draft ISRS 4400 in relation to the exercise of professional judgement. To build up to what ASRS 4400 currently has in its paragraph 25 (see below) will require a complete read of paragraphs 13(b), 18, 20(b), 26, A14-A16 of proposed ISRS 4400. In contrast, while the Australian ASRS 4400 requirement comes out with a clear statement in paragraph 25 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 is much more subtle in this respect.

Paragraph 25 of ASRS 4400:

The nature, timing and extent of procedures shall be specified in the terms of the engagement in sufficient detail such 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.

Overall view of the AUASB Audit Technical Group:

While proposed ISRS 4400 is not as direct in its language in the requirements as is extant ASRS 4400, the complete read of ISRS 4400 still lands the assurance practitioner in the same place. While the ATG's preference is to simplify the language and will recommend this as part of the AUASB submission to the IAASB. If the proposed ISRS 4400 did not change in form when finalised as a standard, the ATG would still support the standard in relation to the drafting of professional judgement.

(b) Independence:

ASRS 4400 has an independence requirement equivalent to that applicable to "other assurance engagements", unless the engaging party has explicitly agreed to modified independence requirements. If modified independent is agreed, the level of independence applied is described in the AUP report.

Proposed ISRS 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 included, and whether the practitioner is (or is not) included.

Overall view of the AUASB Audit Technical Group:

The ATG acknowledges that the APESB Code does not contain independence requirements and accordingly, the proposed ISRS 4400 has no requirement to determine independence for agreed-upon procedures engagements. With the way in which professional judgement has been brought together in proposed ISRS 4400 and the proposal to not require the assurance practitioner to be independent, the ATG raises concern in relation to the lack of requirement for the assurance practitioner to be independent at a level equivalent to that applicable to "other assurance engagements". The principles and practices and benchmark in ASRS 4400 is currently higher than in proposed ISRS 4400 and the ATG will recommend in the AUASB submission to the IAASB that modified independence is considered.

(c) Restriction on use/distribution of reports

ASRS 4400/paragraph 42¹ 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. Under ASRS 4400, a restriction on use paragraph is required to be included in an AUP report. Proposed 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.

Overall view of the AUASB Audit Technical Group:

The ATG acknowledges that practically, the requirement of ASRS 4400/paragraph 42 may be difficult to implement and accordingly the proposal under ISRS 4400 may be considered more suitable.

5. The 3 areas covered in paragraph 4 above, are all specific areas/questions on Exposure and are contained within ED 03/18. The ATG will collate feedback and consider as part of the draft submission to the IAASB that will be presented to the AUASB at the March 2019 AUASB meeting.

Matters to Consider

Part A – General

6. ED 05/18 is the Australian equivalent of the IAASB's ED-4400.
7. ASRS 4400 applies to AUP engagements undertaken by an assurance practitioner. ASQC 1 defines Assurance Practitioner meaning '*an individual, firm or other organisation, whether in public practice, industry and commerce, or the public sector conducting assurance engagements, or related service engagements (including engagements to perform agreed-upon procedures)*'. Proposed ISRS 4400 refers to Practitioner. ED 05/18, (consistent with the IAASB), has been drafted referring to practitioner. This raises a difference between ASQC 1 and proposed ASRS 4400, however the Audit Technical Group consider this difference to be timing only, since ISQM 1 is currently being revised by the IAASB.

This difference and wider scope of application has been raised as a question on exposure. The Audit Technical Group supports proposed ASRS 4400 being drafted referring to practitioner on the basis that AUP engagements are not assurance engagements, consistency with proposed ISRS 4400 and ultimately where ISQC 1 may land. The AUASB is requested to decide on whether ED 05/18 should refer to Assurance Practitioner (consistent with current ASRS 4400 and ASQC 1) or Practitioner (consistent with proposed ISRS 4400).

8. Explanatory Memorandum *Exposure Draft 05/18: Proposed Standard on Related Services ASRS 4400 Agreed-Upon Procedures Engagements* will accompany ED 05/18. This also refers to the IAASB's Explanatory Memorandum which provides detailed background and explanations of the proposed amendments.
9. Compelling reasons to modify ISRS 4400 will be considered further before finalising the final ASRS, and after feedback is received from Australian constituents.
10. In addition to the public exposure process, during February 2019 the AUASB will conduct targeted outreach and webinars

Part B – NZAuASB

11. The NZAuASB plan to issue the IAASB's ED-4400 as an ED in New Zealand with no compelling reason amendments.

¹ ASRS 4400/Paragraph 42: Use of the report shall be restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as intended users in the engagement letter since others, unaware of the reasons for the procedures, may misinterpret the results.

Part C – “Compelling Reasons” Assessment

12. Compelling reasons will be reassessed after consideration of submissions received from Australian stakeholders, and via AUASB discussion.

AUASB Actions

13. Read and consider:
- (a) Explanatory Memorandum *Exposure Draft 05/18: Proposed Standard on Related Services ASRS 4400 Agreed-Upon Procedures Engagements*;
 - (b) Exposure Draft 05/18 ASRS 4400 *Agreed-Upon Procedures Engagements* (ED 05/18); and
 - (c) Assurance Practitioner versus Practitioner
14. Consider if any other questions should be included in ED 05/18.

AUASB Technical Group Recommendations

- (a) The AUASB approve ED 05/18 and the supporting Explanatory Memorandum and with a comment period of 60 days.

Material Presented

Agenda Item 4.2.0	Dec18_4.2.0_BMSP_ASRS4400
Agenda Item 4.2.1	Dec18_4.2.1_ExplanatoryMemorandum_ED0518
Agenda Item 4.2.2	Dec18_4.2.2_ED_05-18_ProposedASRS4400