



December 2018

Explanatory Memorandum

Exposure draft 05/18: Proposed Standard on Related Services ASRS 4400 Agreed-Upon Procedures Engagements

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



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This Explanatory Memorandum is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

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Important Note and Disclaimer

This Explanatory Memorandum is issued by the AUASB to provide information to assurance practitioners about the AUASB's implementation in Australia of the IAASB's proposed ISRS 4400 *Agreed-Upon Procedures Engagements*.

This Explanatory Memorandum does not establish or extend the requirements under an existing AUASB Standard(s) and is not intended to be a substitute for compliance with the relevant AUASB Standards with which auditors and assurance practitioners are required to comply when conducting an audit or other assurance engagement. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

CONTENTS

| | <i>Paragraph</i> |
|---------------------------------------|------------------|
| Purpose | 1-3 |
| Exposure Draft Questions | 4-5 |
| Background | |
| IAASB | 6-8 |
| AUASB | 9-12 |
| The AUASB's approach | 13-19 |
| Other Outreach Activities | 20 |
| Application | 21-22 |
| Website Resources | 23 |

EXPLANATORY MEMORANDUM

Exposure Draft: Proposed Standard on Related Services ASRS 4400 Agreed-Upon Procedures Engagements

Purpose

1. The International Auditing and Assurance Standards Board (IAASB) have issued Exposure Draft ISRS 4400 *Agreed-Upon Procedures Engagements* (Proposed ISRS 4400).
2. The AUASB is seeking feedback from stakeholders on this ED to inform us when developing our response to the IAASB, and when considering whether there are any compelling reasons for the proposals to be modified for application in Australia.
3. The aim of this Explanatory Memorandum is to provide constituents with information about ED 05/18 ASRS 4400 *Agreed-Upon Procedures Engagements* (ED 05/18), and the Auditing and Assurance Standards Board's (AUASB) approach to implementing in Australia.

Exposure Draft Questions

4. Constituents are asked to respond to questions:
 - (a) which the IAASB have requested feedback on, which will inform the AUASB when developing our response to the IAASB; and
 - (b) to assist the AUASB in assessing the impact of Australian applicable laws and regulations, and whether any compelling reasons exist, which would result in modifications to the final standard for application in Australia.
5. Refer to ED 05/18 for the detailed questions.

Background

IAASB

6. 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.
7. 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.
 - Proposed 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.
8. ED-4400 contains a number of paragraphs relating to quality control. The IAASB is currently undertaking a project to revise ISQC 1.¹ 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 ED 05/18.
9. 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 Proposed ISRS 4400 and the significant changes proposed.

[Exposure Draft, ISRS 4400 Agreed-Upon Procedures Engagements IFAC](http://www.ifac.org/auditing-assurance)

AUASB

10. The AUASB has a strategic objective to develop, issue and maintain high quality Australian Auditing Standards. The AUASB takes input received from Australian constituents into account when preparing its submissions to the IAASB. The AUASB makes formal submissions on EDs issued by the IAASB to contribute to the setting of international auditing and assurance standards.
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 auditing standards (ISAs), unless there are compelling reasons not to do so; and to amend the ISAs only when there are compelling reasons to do so. The AUASB's principles of convergence with the ISAs and 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
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 AUASB will adopt the revised ISRS 4400 into the Australian Auditing Standards pursuant to section 227B of the *Australian and Securities Investments Commission Act 2001*. Prior to implementation, the AUASB is required to consult with constituents and accordingly now issues Exposure Draft ED 05/18 for public exposure and comment. All comments

¹ 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*

received from constituents are considered by the AUASB when providing comments to the IAASB and prior to finalisation of the proposed revised standard.

The AUASB's approach

Exposure Draft Protocols

14. The AUASB has developed ED 05/18 based on the IAASB's equivalent ED-ISRS 4400. The AUASB is seeking feedback from constituents to inform us when responding to the IAASB on ED-ISRS 4400, and to identify compelling reasons when it is appropriate to amend ISRS 4400.
15. Under its convergence policies, the AUASB continues to include requirements and guidance that are in addition to, or a clarification of, the equivalent ISA/ISRS, only when the compelling reason test has been met. Any such modifications continue to be identified in the Australian Auditing Standards by paragraph numbering commencing with an "Aus" prefix. Any such changes do not diminish the requirements of the equivalent ISA/ISRS. Note that no Australian amendments have been included in ED 05/18.
16. In addition to those changes that meet the compelling reason test, the AUASB makes format and terminology changes to comply with requirements relating primarily to legislative instruments. Such changes are machinery in nature and do not change the meaning of the equivalent ISA.

Extant Australian Standard on Related Services ASRS 4400 Agreed-Upon Procedures Engagements to Report Factual Findings and Proposed International Standard ISRS 4400 Agreed-Upon Procedures Engagements.

17. Extant Australian ASRS 4400 has been revised and updated several times since that of the equivalent ISRS 4400. Many of the new proposals of ED ISRS 4400 are already considered and addressed in extant ASRS 4400, including that:
 - ASRS 4400 is not limited to procedures regarding "financial information", whereas ISRS 4400 is limited to financial information.
 - ASRS 4400 requires the assurance practitioner to maintain independence equivalent to the independence requirements applicable to Other Assurance Engagements and to disclose in their report if modified independence requirements are agreed.
 - ASRS 4400 requires that assurance practitioners do not exercise professional judgement to determine or modify the procedures to be performed during the course of the engagement.
 - ASRS 4400 requires that assurance practitioners satisfy themselves that the engagement team and any experts collectively have competence, capabilities and resources to perform the agreed-upon procedures and that assurance practitioners take responsibility for the direction, supervision and performance of the engagement and the accurate reporting of factual findings and, when using the work of others, evaluate the adequacy of their work and the findings communicated.
18. The proposed ISRS 4400 largely aligns with extant 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 include 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.

- **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.
- 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 persons who has adequate training, experience and competence in conducting assurance engagements and is a higher benchmark than the term Practitioner. Since AUP engagements are not assurance engagements and since proposed ISRS 4400 does not require the practitioner to be independent, ED 05/18, consistent with IAASB proposed ISRS 4400, refers to **practitioner**.

General

19. The exposure draft (ED) will be open to constituents for a **60 day comment period** closing on 14 February 2019. This is to allow constituents time to respond to the AUASB on the ED, and for the AUASB to conduct further outreach and to collate all feedback into our submission to the IAASB due on 15 March 2019.
20. At the completion of the exposure period, the AUASB will consider constituents’ submissions:
 - (a) to inform us when developing our response to the IAASB on their ED; and
 - (b) where the AUASB determines that a compelling reason exist, to inform us as to whether modifications may be required when we are adopting the final standard.

Other Outreach Activities

21. In addition to the public exposure process, during February 2019 the AUASB will conduct targeted outreach and webinars.

Application

22. The effective date of the standard would be 18-24 months after the approval of the final ISRS 4400.

Early Adoption

23. Consistent with the IAASB’s policy, all Australian Auditing Standards may be early adopted unless explicitly prohibited.

Website Resources

24. The AUASB welcomes constituents’ 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. Constituents are encouraged to access the websites of the [AUASB](#) and the [IAASB](#) to obtain further information.

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