

Question 1 Public Interest Issues

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

Yes.

The AUASB is supportive of this exposure draft, particularly in light of the increasing demand for agreed-upon procedures engagements globally. The AUASB considers that the proposed standard has been clarified to respond to the needs of stakeholders and address public interest issues, however, there are certain matters covered in specific questions below that should be addressed to improve consistency in implementation of the standard, particularly in relation to professional judgement and independence.

Question 2 Professional Judgement

- 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?

The AUASB considers that professional judgement requires further clarity in the standard. The execution of procedures in an AUP engagement should not involve professional judgment.

One of the most significant attributes of an AUP engagement is the lack of subjectivity in both the procedures and the resultant factual findings. The distinguishing factor between assurance engagements and an AUP engagement is that the practitioner performs the procedures as agreed with management and reports factually on the findings. The Australian 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 AUASB considers that this specific clarification is required in the proposed standard.

ED ISRS 4400 is less direct in relation to the exercise of professional judgement, requiring a read of several paragraphs (13(b), 13(j), 18, 20(b), 26, A14-A16) to eventuate in demonstrating the role of professional judgement in an AUP engagement. While the explanatory paragraphs of ED ISRS 4400 make it clear that there should not be judgement in the conduct of the procedures themselves, the wording of paragraph 18 “*and conducting an agreed-upon procedures engagement*” implies that judgement can be used and in fact may have the unintended consequence of implying that professional judgement is required in performing procedures. Introducing the concept of ‘professional judgement’ would envisage that procedures are performed in a manner that was not initially agreed (in the engagement letter) and hence it may become difficult to report factually. This may result in different practitioners performing the same procedures, getting different results as the level of professional judgement differs.

The AUASB considers that that additional wording is required that directly explains that a procedure that requires the exercise of professional judgement in performing or in analysing the results thereof is unlikely to meet the engagement acceptance and continuance pre-conditions. An example that could be used is for NOCLAR or fraud, where the practitioner exercises judgment if they become aware of certain matters but they are not required to perform procedures to identify such circumstances, or even to remain alert for them, as would be applicable in an audit or assurance engagement, as this is not a risk-based standard.

* Paragraph 25 of ASRS 4400 Agreed-Upon Procedures to Report Factual Findings: *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.*

The AUASB would like to see a clearer requirement in relation to the exercise of professional judgement and suggests that paragraph 18 of ED ISRS 4400 is replaced with more explicit wording:

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.

Questions 3 and 4 Practitioner's Objectivity and Independence

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| <p>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?</p> <p>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.</p> |
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Not including a precondition for the practitioner to be independent when performing an AUP engagement

2 responses have been prepared for AUASB discussion. The AUASB is asked to consider both options and determine the most appropriate outcome.

Option A response:

The AUASB agrees with not including a precondition for the practitioner to be independent when performing AUP engagements.

The AUASB recognises the challenges in addressing ethical considerations that are ultimately a matter for the Ethics Board to consider in the Code of Ethics. The AUASB considers that the requirement of paragraph 22(d) addresses the need for the practitioner and the engaging parties to agree, within the terms of engagement, whether independence is a necessary precondition.

Option B response:

The AUASB does not agree with not including a precondition for the practitioner to be independent when performing an AUP engagement.

The AUASB considers it difficult to argue that the practitioner is objective if they are not independent as the second part of the independence definition of the Code of Ethics states that:

“(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a Firm’s, or an Audit or Assurance Team member’s integrity, objectivity or professional scepticism has been compromised.”

Considering that in many cases AUP engagements are performed by auditors, it is our view that in the current market (and in terms of the current global climate of issues facing the auditing profession), users expect more from practitioners and therefore the need for some level of independence, although the Code does not require independence for AUPs.

The AUASB is of the view that the assurance practitioner, when carrying out procedures of an assurance nature and reporting factual findings, should have some independence requirements, which can be significantly less onerous than assurance engagements. As a suggestion, the Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* 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.

Disclosures about independence in the AUP report

Note to AUASB: This section is really only relevant where option B above is selected

In terms of the disclosure tables included in the explanatory memorandum, the AUASB considers that there is a public expectation that practitioners are independent and the notion that a practitioner can have a “not independent” status is not desirable.

In the event that the IAASB ends up in a position that there is no precondition for the practitioner to be independent, the AUASB considers that the variability of outcomes as presented in the Explanatory Memorandum is confusing and accordingly may not be beneficial to intended users. The standard would benefit from criteria to be used by a practitioner to assess their independence where required by law or regulation.

Additionally the AUASB does not agree with the proposals that address reporting about the practitioner’s independence when the practitioner is not required to be independent and either has not determined their independence or has determined that they are not independent.

In scenarios where there is no requirement to be independent and the auditor has not determined their independence, a statement in the AUP report to the effect that “the practitioner is not required to be independent” could lead to misinterpretation by users and lead users to draw their own conclusions.

In scenarios where there is no requirement to be independent and the auditor has determined that they are not independent, the criteria of such an assessment is open to interpretation. For example it is possible for the practitioner to be independent in accordance with the requirements for assurance engagements but not independent in accordance with the requirements for audit engagements. Whether the practitioner is expected to disclose that they are “not independent” in these circumstances is not clear.

The AUASB’s suggestion for these 2 scenarios is to expand the statement in the AUP report to be “the practitioner is not required to be independent and does not make any assertions regarding their independence. This suggestion aids in the following:

- a consistent statement in the AUP report when independence is not required
- explicitly conveying to users that they cannot make any assumptions about the practitioner’s independence
- The requirement to disclose when the practitioner is “not independent” is not capable of being consistently applied without an explicit basis in the standard or in relevant ethical requirements against which this determination is to be made

Question 5 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?

The AUASB does not agree with the change in definition from “factual findings” to “findings” for the following reasons:

- The removal of the word factual from the title may suggest a reduction in the level of objectivity. This combined with the matters referred to under independence and judgement above, does cause a level of concern.
- The term findings can also cause confusion as it is a term commonly used in consulting and advisory services where a level of professional judgement is applied in the conduct of those engagements.
- The fact that the phrase “findings” has to be defined in the ED as “findings that are the factual results of procedures performed” suggests that use of the adjective “factual” is a key part of the definition. As a result, the phrase “factual results” or “factual findings” appears to be fit for purpose. It is relevant to note that the Australian Standard ASRS 4400 doesn’t define the phrase “factual findings” as the phrase itself implies what type of findings they are.

Question 6 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?

The AUASB considers that the requirements in paragraphs 20-21 are appropriate for engagement acceptance however notes that the standard could include more detail on:

- A. the practitioners consideration of whether an assurance engagement may be required; and
- B. understanding the needs of intended users

Practitioners consideration of whether an assurance engagement may be required

The AUASB considers that more should be done to differentiate an AUP engagement from an assurance engagement (see suggestion c) below), and that the practitioner should apply their judgement not to accept an AUP if the intended user/engaging party might misconstrue the nature of this service.

The AUASB makes the following suggestions:

- a) Apply the concept in paragraph 21 of the Australian Standard ASRS 4400 *Agreed-Upon Procedures Engagements*, that the practitioner shall not accept an agreed-upon procedures engagement if, in the professional judgement of the assurance practitioner the circumstances of the engagement indicated that the intended users are likely to construe the outcome of the engagement as providing an assurance conclusion about the subject matter.
- b) The standard could also benefit from an introduction similar to the Australian Standard’s ASRS 4400 paragraphs 4-6 which articulate how an AUP engagement is different to assurance, consulting, compilation and business services. This would be helpful to include to ensure that practitioners globally are clear on these differences themselves. They could use this language

to assist them in their conversations with clients when discussing how their service types can help solve various client issues.

- c) Finally, ASRS 4400 has two dedicated appendices (1 and 2) to this topic and practically how AUP differs from assurance. Appendix 1 focuses on differentiating factors between the two services and Appendix 2 provides examples of differences in scope. This could be invaluable to practitioners to keep a clear distinction globally between these service offerings and avoid any potential creep of an AUP turning into a quasi-assurance engagement.

Understanding the needs of intended users

The AUASB is supportive of the inclusion of the pre-condition as set out in Paragraph 20(a) of ED-4400 where ‘the engaging party acknowledges that the expected procedures to be performed by the practitioner are appropriate for the purpose of the engagement’. We also agree with the IAASB’s position that this requirement should not be extended to cover acknowledgement that the procedures are appropriate for the purpose of the intended users as it may not be possible or practical to do so.

However, the AUASB recommends additional requirements and guidance in the following areas:

- a) Application material to guide practitioners to obtain a statement from the engaging party that the procedures are appropriate to the needs of the engaging party and other intended users or that they considered their needs in agreeing to the procedures. Otherwise there is more onus on the practitioner to look at communication and correspondence between the engaging party and the intended users, to follow up regarding absence of response from intended users, or to use judgement to determine whether procedures are appropriate.
- b) It would be helpful to include a precondition to consider whether there is a rational purpose to the engagement. This would relate to the exercise of professional judgement in considering whether to accept, and to plan the engagement, with regard to the consideration of the purpose of the engagement. Paragraphs 20(b), 21 (which are somewhat duplicative), related application material, and A28 discuss whether the procedures agreed are appropriate to the purpose of the engagement, but it would be helpful to have a higher-level requirement around the purpose itself, linked to the practitioner’s understanding of the needs of the intended users.

For example, paragraph 21 (e) of the Australian Standard ASRS 4400 states that the assurance practitioner shall not accept an agreed-upon procedures engagement if, in the professional judgement of the assurance practitioner, the engagement has no rational purpose. This is particularly important if the engaging party wishes for the report to be distributed to other parties who may not understand what an agreed upon procedures report is and how it differs from assurance (and the fact that the practitioner has not verified any data that may be included in the report).

- c) The AUASB notes that the standard contemplates the practitioner’s report being made more widely available, e.g. to the general public on a website. In such situations, the practitioner may have difficulty identifying the intended users, and there may be user groups that are not intended users – it is unclear what the practitioner’s responsibility would be towards such groups. In this regard, we also note a lack of clarity in terminology between “users” and “intended users”, as the IAASB appears to use these terms interchangeably. We believe the practitioner, together with the engaging party, should attempt to identify and meet the needs of intended users, but that the standard should clarify that they do not have a responsibility towards additional users who are not intended users.

Question 7 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?

The AUASB agrees with the proposed requirements and application material on the use of a practitioner's expert and references to the use of the expert in an AUP report as this is the current practice in Australia.

The AUASB does have some additional recommendations in this regard:

- The wording of paragraph 28 as may be seen as an outsourcing arrangement and it is not clear that the expert's role is to assist the practitioner. Accordingly, we suggest the following revised wording for paragraph 28: "When the practitioner involves a practitioner's expert to assist in performing the agreed-upon procedures, the practitioner shall:"
- Furthermore, the principle that the procedures to be performed and related findings should should not require judgement and should be described objectively should be reinforced when using an expert and it may be beneficial to incorporate this message in the application material.
- The illustrative example in Appendix 2 could include a more useful example of using the work of an expert. The AUASB is unsure as to why the example described in the illustration would require an external expert. The example from A35, would be more relevant.

Question 8 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?

Restriction on use:

The AUASB considers that the use of an AUP report should be restricted to parties that have agreed to the procedures performed.

The AUASB when they 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. Paragraph 42/ASRS 4400 specifically restricts the **use of** the report 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....'* Reliance on that report is effectively restricted to the intended users identified, even if the report is distributed to other parties. Paragraph 43(n) requires a restriction **on use** paragraph to be included in an AUP report.

The purpose of the distinction is not to prevent distribution of a report per se, but to deter use of that report by those other than the intended users which are identified in the terms of engagement. Reliance on the AUP report is effectively restricted to the intended users identified, even if the report is distributed to other parties. Restriction of the distribution of a report is ultimately a risk management decision for the practitioner. We suggest that the IAASB make a similar distinction and paragraph A43 should not refer to restriction on distribution as this is not practically possible.

Content of report:

The AUASB largely supports the content of the proposed AUP report, however amendments would be required after consideration of feedback above. For example paragraphs 30(f)-30(g) would be impacted by the AUASB's comments about independence and independence disclosures as presented in the response to Q3/4 above. The AUASB considers it impractical to require the practitioner to include a statement on independence when independence is not a requirement of the standard nor the engagement.

Readers of an AUP report will often not appreciate the subtle difference between objectivity (which is always required) and independence. If the report includes a statement that the practitioner is not independent, even though independence is not required, many readers will instantly discount the value of the report even though to do so is inappropriate and unnecessary.

The AUASB makes the following additional comments/suggestions:

- Paragraph 30(b) requires “an addressee as set forth in the terms of the engagement” however there is no further clarification on who the addressee should be. Given that under ED 4400 only the engaging party is required to acknowledge the appropriateness of the procedures, should consideration be given as to whether an intended user other than the engaging party may be included as an addressee?
- It may be useful to require or acknowledge in the application material that when circumstances impose restrictions on the performance of the procedures (and those restrictions are considered appropriate), the restrictions are described in the AUP report. For example, when the agreed-upon procedures are set forth in regulation and a procedure is not applicable in the circumstances of the particular engagement, the practitioner may describe the reason that the procedure was not performed in the AUP report.

Question 9 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.

The AUASB have no comments on translations and supports the suggested effective date.

APPENDIX 1:

**ASRS 4400 AGREED-UPON PROCEDURES ENGAGEMENTS TO
REPORT FACTUAL FINDINGS**

Draft