

The Chairman
Auditing and Assurance Standards Board
PO Box 204
Collins Street West
Melbourne Victoria 8007

14 February 2019

Dear Chairman

Re: Exposure Draft ED 05/18 - Proposed International Standard on Related Services (ISRS) 4400 (Revised), *Agreed- Upon Procedures Engagements*.

Deloitte Touche Tohmatsu (Deloitte) is pleased to respond to the Australian Auditing and Assurance Standards Board (AUASB) on the IAASB's Proposed International Standard on Related Services (ISRS) 4400 (Revised) Agreed – Upon Procedures Engagements.

We support the need for a revised standard that meets the needs of users and the AUASB's policy to amend or supplement ISRSs when there are compelling reasons to do so.

Please refer to Appendix 1 for our responses to the specific comments posed by the AUASB within ED 05/18.

In addition, we have included comments relating to specific paragraphs within the proposed standard in Appendix 2.

If you have any queries in relation to this response please do not hesitate to contact me on 02 9322 3434.

Yours sincerely

Gareth Bird
Partner
Audit and Assurance Quality Leader
(signed in my capacity as a Partner at Deloitte and not as an AUASB Board member)

Appendix 1

Responses to specific questions posed with ED 05/18

Overall Question

Public Interest Issues Addressed in ED 05/18

1. *Has ED 05/18 been appropriately clarified and modernised to respond to the needs of stakeholders and address public interest issues?*

We believe 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 or in Appendix 2 that should be addressed to improve consistency in implementation of the standard.

Specific Questions

Professional Judgement

2. *Does the definition, requirement and application material on professional judgement in paragraphs 13(j), 18 and A14-A16 of ED 05/18 appropriately reflect the role professional judgement plays in an AUP engagement?*

The definition of professional judgement in paragraph 13 (j) is the same as in auditing standard ASA 200 and we believe this was envisioned for assurance engagements and not necessarily for an AUP engagement.

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. 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.

Although we acknowledge that when accepting and agreeing to perform an AUP engagement, the practitioner would need to apply professional judgement, including this requirement, as in par 18 (applying professional judgement in conducting the engagement) of the ED, would result in the practitioner including subjectivity in the performance of an AUP. This will mean the results of the procedures performed would not necessarily be factual findings as defined in the proposed standard i.e. as “being capable of being objectively verified”.

If the standard allows use of professional judgement in conducting the engagements, this may result in different practitioners performing the same procedures, getting different results as the level of professional judgement differs.

Therefore, it is our view that the standard does not appropriately reflect the role of professional judgement 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 AUASB would discuss the relevant independence considerations with the APESB?*

In Australia, removing the precondition will be a step backwards in terms of “raising the bar” of what is expected of professional accountants, as this is the current practice.

The proposed standard does not require the practitioner to be independent. Based on the explanatory memorandum, one of the factors considered by the IAASB was that “the practitioner is reporting on factual results from performing the AUP, independence is less important as it is unlikely that factual results would be susceptible to potential bias”. The draft standard is also proposing allowing professional judgement in conducting the engagement, see point above. This will contradict with the IAASB view noted above relating to why independence is less important.

It will be difficult to argue that the practitioner is objective if they are not independent as the second part of the independence definition APESB 120.12A1) b) 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 most cases these AUP engagements are performed by auditors, it is our view that, the current market (and in terms of the current global climate of issues facing the auditing profession) expects more from practitioners and therefore the need for some level of independence, although the Code does not require independence for AUPs.

In addition, paragraph A12 states “A practitioner performing an agreed-upon procedures engagement is required to fulfil the practitioner’s responsibilities in accordance with relevant ethical requirements. Relevant ethical requirements ordinarily comprise the APESB Code, together with national requirements that are more restrictive. The APESB Code requires practitioners to comply with fundamental principles including objectivity, which requires practitioners not to compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others. Accordingly, relevant ethical requirements to which the practitioner is subject would, at a minimum, require the practitioner to be objective when performing an agreed-upon procedures engagement.”

This paragraph implies there is a level of independence expected and accordingly, it is our view that the practitioners performing these engagements should have some independence requirements, which can be significantly less onerous than assurance engagements.

We also question if the practitioner were not independent, and performs such engagements, how the user will value such a report, considering the current market perceptions.

Accordingly, we do not agree with not including a precondition for the practitioner to be independent when performing an AUP engagement. Although an AUP engagement is not an assurance engagement, there is an expectation that the practitioner performing these engagements will be objective.

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 IAASB Explanatory Memorandum, and*

the related requirements and application material in ED 05/18? 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.

See our overarching comment in point three above relating to independence.

However, if the IAASB lands at a position that there is no requirement to be independent, we expect the practitioner is not required to make an independence determination and no disclosures should be required in the AUP report.

We suggest that, the requirements and guidance need to be enhanced to cover the documentation expectations for practitioners especially in scenarios where, the practitioner has not assessed independence. Is there any expectation that they document why they have not assessed independence? If not, what is the expectation?

Overall, we believe that the practitioners performing these engagements should have some independence requirements that can be significantly less onerous than assurance engagements.

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 05/18?*

We do not necessarily agree with the change from “factual findings” to “findings”.

This is because findings as defined in the Macmillan dictionary is “information that you discover, or opinions that you form after doing research.” and factual is defined as “based on **facts** or containing only **facts**, rather than theories or opinions.” Therefore using findings on its own in ED 05/18 could be subject to various interpretations.

- We agree with the principle of providing the definitions in paragraph 13 (f).
- If the AUASB intend to keep the term findings, the we proposed the following change:
 - Delete Paragraph A11. In some jurisdictions, the term “findings” may be replaced with “factual findings” as the term findings is defined in the standard.

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 05/18, appropriate?*

The requirements in paragraphs 20-21 are appropriate for engagement acceptance.

However, the application material specifically paragraph A26 suggests that the practitioner needs to perform procedures to satisfy themselves that the AUP engagement procedures are appropriate for the purpose. We believe this is not necessary as:

- Paragraph 22 (b) requires the engagement letter to include an acknowledgement by the engaging party that the procedures are appropriate for the purpose of the engagement; and

- Paragraph 30 h (ii) also requires the report to include that “The engaging party has acknowledged that the procedures are appropriate for the purpose of the engagement, and that the practitioner makes no representation regarding their appropriateness;”

It is our view that this should be sufficient and appropriate evidence of the engaging party’s intentions.

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 05/18, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED 05/18?*

We agree 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.

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 05/18 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?*

The AUP report should be restricted to parties that have agreed to the procedures performed. It is our view that the recipient of the report and ultimately the user of the report are required to understand the terms of the engagement. This can only happen if either they were a party to the engagement letter or before they receive a copy and rely on the report, they understood the terms of the engagement.

Although paragraph A43 provides an option to the practitioner to consider restricting use, having too many options and differing treatment, will result in inconsistencies.

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 05/18? What do you believe should be added or changed, if anything?*

See detailed comments in Appendix 2 below.

As indicated above, we do not believe that paragraph 30 (g) should be included. See response in point three above.

Paragraph A42 also explains how the requirement in paragraph 30 (g) will result in challenges in implementation. “If a statement is made that the practitioner is not independent, the practitioner may want to include an explanation as to why the practitioner is not independent.”

Request for General Comments

10. *In addition to the requests for specific comments above, the AUASB is also seeking comments on the matters set out below:*

- a) *Effective Date—Recognising that ED 05/18 is a substantive revision and given the need for national due process and translation, as applicable, the AUASB 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 AUASB 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.*

We support a period of 18 -24 months after date of approval of the final ISRS as this would provide a sufficient period to support effective implementation of the ISRS. This will allow any government institution with templates for AUPs to be updated for the requirements of the new standard.

Australian Specific Questions

Stakeholders are asked to respond to the AUASB on the following questions in order to inform us when considering if any compelling reasons exist:

11. *Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?*

None that we are aware of.

12. *Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?*

It appears the proposed standard where applicable has acknowledged that laws and regulations may override some of the application material.

13. *Whether there are any principles and practices considered appropriate in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?*

Yes, the current practices relating to independence and restriction of use paragraphs. See the point already covered above.

14. *ASRS 4400 Agreed-Upon Procedures Engagements to Report Factual Findings (issued in July 2013) requires compliance with ethical requirements equivalent to the ethical requirements applicable to Other Assurance Engagements, including those pertaining to independence, unless the engaging party has explicitly agreed to modified independence requirements. Do stakeholders support this level of compliance?*

We support this level of compliance. See comments in point 3 above.

15. *ASRS 4400 Agreed-Upon Procedures Engagements to Report Factual Findings (issued in July 2013) applies to AUP engagements performed by an Assurance Practitioner. Assurance Practitioner is defined in ASAE 3000* with the term indicating that that the work is required to be*

performed and the report prepared by persons who have adequate training, experience and competence in conducting assurance engagements. Do stakeholders support the application of ASRS 4400 being restricted to Assurance Practitioners rather than Practitioners as currently proposed in ED 05/18?

As the AUP engagement is a related service engagement, we support that the application of ASRS 4400 be restricted to Assurance Practitioners.

16. *What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of this proposed standard? If there are significant costs, the AUASB would like to understand:*
- a) Where those costs are likely to occur;*
 - b) The estimated extent of costs, in percentage terms: and*
 - c) Whether expected costs outweigh the benefits to the users of AUP Reports?*

We do not see the application of the requirements in the proposed standard resulting in additional significant costs.

17. *Are there any other significant public interest matters that constituents wish to raise?*

None.

Appendix 2

REF	Paragraph detail	Proposed amendments	Reasons
Par. A15	<p>Professional Judgment Professional judgment may be applied in an agreed-upon procedures engagement as follows:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Discussing the nature, timing and extent of the procedures to be performed (taking into account the purpose of the engagement) with the engaging party, and in some cases, the intended users or the responsible party (if these parties are not the engaging party) or the practitioner’s expert. <input type="checkbox"/> Describing the findings in an objective manner. <input type="checkbox"/> Determining whether any of the terminology used to describe the procedures or findings is unclear, misleading, or subject to varying interpretations. 	<p>Professional Judgment Professional judgment may be applied in an agreed-upon procedures engagement as follows:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Discussing Agreeing the nature, timing and extent of the procedures to be performed (taking into account the purpose of the engagement) with the engaging party, and in some cases, the intended users or the responsible party (if these parties are not the engaging party) or the practitioner’s expert. <input type="checkbox"/> Describing the findings in an objective manner. <input type="checkbox"/> Determining whether any of the terminology used to describe the procedures or findings is unclear, misleading, or subject to varying interpretations. 	<p>This is contrary to paragraph 20 (b) The agreed-upon procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.</p> <p>In addition, it is not possible to apply professional judgement in discussions.</p>
Par. A16	<p>“..The more a procedure requires professional judgment, the more the practitioner may need to consider whether the condition that the agreed-upon procedures and findings can be described objectively,</p>	<p>“..The more a procedure requires professional judgment, the more the practitioner may need to consider whether the condition that the agreed-upon procedures and findings can be described</p>	<p>There should not be a need for professional judgment in executing the procedures as these are agreed-upon and to the extent practical, the steps to perform the</p>

REF	Paragraph detail	Proposed amendments	Reasons
	in terms that are clear, not misleading, and not subject to varying interpretations is present.	objectively, in terms that are clear, not misleading, and not subject to varying interpretations is present.	procedure should be agreed instead of being left to auditor judgement. Leaving this to auditor judgement will only lead to subjectivity in the description of findings
Par. A25	In cases where law or regulation specifies a procedure or describes a procedure using terms that are unclear, misleading, or subject to varying interpretations, the practitioner may satisfy the condition in paragraph 20(b) by, for example, obtaining the agreement of the engaging party to:	In cases where law or regulation specifies a procedure or describes a procedure using terms that are unclear, misleading, or subject to varying interpretations, the practitioner may satisfy the condition in paragraph 20(b) by, for example, obtaining the agreement of requesting the engaging party to:	The use of ‘obtaining the agreement of the engaging party’ implies that prior to this, the procedures have already been agreed to. However in practice this normally happens when the practitioner is still considering whether or not to accept the engagement.
Par. 22	e) Identification of the subject matters on which the agreed-upon procedures will be performed;	Identification of the subject matter (s) on which the agreed-upon procedures will be performed;	Acknowledge that it is not always plural
	(f) The nature, timing and extent of the procedures to be performed;	(f) The nature, timing and extent of the procedures to be performed;	Ordinarily, these are all agreed with the engaging party.
	(h) Identification of the addressee of the agreed-upon procedures report.	N/A – see comment	<p>(a) Wording suggest this could be different to the engaging party?</p> <p>(b) See A43- there is no consistency in inclusion of responsible party- do we not also need to include the consideration that the responsible party/addressee needs to be party to the AUP?</p>

REF	Paragraph detail	Proposed amendments	Reasons
Par. 27	The practitioner shall consider whether it is necessary to request written representations from the engaging party. (Ref: Para. A34)	The practitioner should shall consider evaluate whether it is necessary to request written representations from the engaging party. (Ref: Para. A34)	Use the term ‘consider’ implies it is not a requirement. Consider changing the wording of “shall” to “should” which is consistent with the Assurance standards and the clarification project in 2010.
Par. 30	(c) Identification of the subject matters on which the procedures have been performed	Identification of the subject matter (s) on which the agreed-upon procedures will be performed;	Acknowledge that it is not always plural
Par. 30	(e) A statement that the firm of which the practitioner is a member applies ISQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ISQC 1;	N/A – see comment	Professional accountant – This is not defined in the standard. Is it expected that the same definition as the Code applies?
Par. 30	(g) When it is known that the practitioner is not independent, a statement to that effect; (Ref: Para. A41–A42)	Propose that this be under the independence section in paragraph 30 h as follows: (iii) When it is known that the practitioner is not independent, a statement to that effect; (Ref: Para. A41–A42)	The current flow does not read well.
Par. 32	The practitioner shall date the agreed-upon procedures report on the date the practitioner has completed the agreed-upon procedures engagement in accordance with this ISRS.	The practitioner shall date the agreed-upon procedures report on subsequent to the completion of date the practitioner has completed the agreed-upon procedures engagement in accordance with this ISRS.	Is there an expectation that this is the same day as the date as the practitioner signs the report? If yes, this may not be always be practical.

REF	Paragraph detail	Proposed amendments	Reasons
Par. A9	The engaging party may be, under different circumstances, the responsible party, a regulator or other intended user.	N/A – see comment	The term “responsible party” is not defined in this standard. Is this supposed to have the same meaning as in the ASAEs?
Par. A11	In some jurisdictions, the term “findings” may be replaced with “factual findings”.	A11. In some jurisdictions, the term “findings” may be replaced with “factual findings”.	See comment in point 5 above.
Par. A38	If the responsible party is not the engaging party, the practitioner may consider obtaining the responsible party’s agreement in order to include the name of the responsible party in the agreed-upon procedures report.	N/A – see comment	See comment relating to paragraph A9 above with respect of the use of the term responsible party.
Par. fA46	For a procedure requiring inquiries of specific personnel, the practitioner may record the dates of the inquiries, the names and job designations of the personnel and the specific inquiries made.	N/A – see comment	We question “Inquiries” as procedure. We do not think this will result in objective results.
Appendix 1	N/A – see comment	N/A – see comment	Insert engagement assumptions-similar to what we have in Appendix 2.
Appendix 1	N/A – see comment	N/A – see comment	Documents inspected could be more specific in the description of the procedures.
Appendix 2 Illustration 1	Assumption states the “ The engaging party is the addressee and the intended user.”	We have performed the procedures described below, which were agreed to by [Engaging Party] [you], on the procurement of [xyz] products	The body of the illustrative report uses addressee and engaging party as if they were different parties.
Appendix 2	Management has represented to us that the reason that this contract was not subject to competitive bidding	Management has represented to us that the reason that this contract was not subject to	This does not seem to be a finding as defined in the proposed standard.

REF	Paragraph detail	Proposed amendments	Reasons
Illustration 2	was due to a pressing emergency to meet a contractual deadline	competitive bidding was due to a pressing emergency to meet a contractual deadline	Propose this is deleted and instead include a separate appendix with management comments.
Appendix 2 Illustration 2	We found that the amounts payable in the signed contracts differed from the amounts ultimately paid by [Engaging Party] for 26 of the 37 contracts. In all these cases, we found that the different amounts were to accommodate an increase of 1% in the sales tax rate of [jurisdiction] that was effective in September 20X8.	N/A – see comment	In practice some clients have requested the detail in an appendix, as the user of the report might not have access to this detail. Is this acceptable?