



Tower Two
Collins Square
727 Collins Street
Melbourne Vic 3008

GPO Box 2291U
Melbourne Vic 3001
Australia

ABN: 51 194 660 183
Telephone: +61 3 9288 5555
Facsimile: +61 3 9288 6666
DX: 30824 Melbourne
www.kpmg.com.au

The Chair
Auditing and Assurance Standards Board
PO Box 204, Collins Street West
Melbourne Victoria 8007 AUSTRALIA
Email: enquiries@auasb.gov.au

Our ref Comment submission on
AUASB Consultation Paper,
Agreed-Upon Procedures
Engagements
Contact Jennifer Travers
(+61 3 9288 5015)

18 February 2019

Dear Sir

Comment submission on AUASB Consultation Paper, Agreed-Upon Procedures (AUP) Engagements

We are pleased to have the opportunity to respond to the Australian Auditing and Assurance Standards Board (AUASB) Consultation Paper on the recently issued IAASB Exposure Draft on Proposed ISRS 4400 *Agreed-Upon Procedures Engagements* (ED 4400). The letter represents the views of KPMG Australia.

We understand that the AUASB intends to respond to the International Auditing Standards Board's (IAASB) invitation to comment on the IAASB Exposure Draft on Proposed ISRS 4400 *Agreed-Upon Procedures Engagements* (ED 4400).

The Global KPMG network is still in the process of developing its response to the IAASB ED 4400, which will be submitted in accordance with the IAASB's deadline.

Our overarching comments are set out below. Please refer to Appendix 1 to this letter for our views and responses to the specific questions raised by the AUASB for comment.

Overarching comments

Overall, KPMG Australia is supportive of the adoption of the proposed Standard on Related Services.

We are supportive of the overall direction of the changes proposed to ISRS 4400 and believe that these broadly achieve the principal objective of keeping 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.

We believe that the proposals represent considerable enhancements to the extant standard, as they establish clearer and more granular requirements, supported by detailed applicable guidance as to how and why a practitioner needs to adhere to these requirements.



Our comments have a common theme of helping reduce inconsistency in the performance of AUP engagements globally and introducing clear boundaries to some areas requiring professional judgement.

Our detailed views and comments are found below in response to each question.

Should you wish to clarify any aspect of KPMG Australia's submission, I would be pleased to discuss. My contact details are jltravers@kpmg.com.au or +61 3 9288 5015.

Yours faithfully

Jennifer Travers
Director

Appendix 1 – KPMG’s Australia’s views on specific matters highlighted by the AUASB in the Consultation Paper: *Agreed-Upon Procedures Engagements*

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?

We believe that ED-4400 has been modernised and is a better fit to the current needs of stakeholders than the extant ISRS 4400.

In particular, the following changes have resulted in a more commercial standard that applies more widely across the Australian market:

- no restriction on distribution of the agreed-upon procedures report;
- no requirement to obtain acknowledgement on the agreed procedures from all intended users due to practical difficulties;
- an increased scope of the standard to address non-financial subject matters; and
- allowance for recommendations.

Additionally, increased practical guidance to assist practitioners apply the standard in a consistent manner is appreciated, in particular for, terminology, practitioner’s expert, modifications to procedures, and recurring engagements.

We believe that the standard could benefit from further clarification in the following areas:

- professional judgement;
- engagement acceptance and continuance;
- independence; and
- use of a practitioner’s expert.

We will expand on these areas in our responses to the specific questions below.

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?

Although many of the improvements on professional judgement are helpful and we generally support them, we note the following:

- The reference to “professional standards” in the definition at paragraph 13(j) is broad and may be unclear. In ISAE 3000 (Revised) the equivalent reference is more specifically to assurance standards and ethical requirements. We therefore suggest that the IAASB be similarly specific here.
- We believe there is particular exercise of professional judgement in deciding whether to accept an AUP engagement, and in agreeing the procedures themselves, as well as in describing the findings in the report, with less relevance in performing the procedures themselves. It would be helpful to provide further clarity around this.
- It would be helpful to highlight that although the practitioner exercises judgment if they become aware of certain matters, e.g. potential NOCLAR or fraud, 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.
- It would be helpful to elevate the consideration of the extent of the need for use of professional judgement as part of determining whether the pre-conditions for an AUP engagement have been met – i.e. the more a procedure requires professional judgement, the more judgement will be needed to describe it objectively, and therefore as described at A16, the less likely it will be that an AUP engagement is appropriate.
- Related to this is the consideration of resources – the more senior, or the more expert the resources need to be, the more this points away from an AUP engagement. We note that the description of the value of the engagement, at paragraph 4, results from compliance with professional standards, including ethical requirements, and clear communication of the procedures and the findings. Unlike audit/ assurance standards, it does not refer to skills, knowledge and experience of the practitioner, and since the procedures should be capable of being objectively verified, presumably by a “reasonable” practitioner who is not an expert, we suggest the IAASB consider whether the concept of skills and experience, and the

“collective competence and capabilities of the engagement team”, including experts, as described at paragraph 19(b) ii, is appropriate.

- It would also be helpful to describe the granularity of description of findings as an example of application of professional judgement.

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?

We agree with not including a precondition for the practitioner to be independent when performing an AUP engagement. This allows for much broader use of this style of engagement which reflects current demand in the Australian market.

When performing an agreed-upon procedures engagement for an audit or assurance client, the practitioner has strict independence requirements to comply with so in many cases, a practitioner will already be independent.

We agree that where required by regulation or contract, the practitioner would apply an independence requirement as a pre-condition for acceptance of the engagement and should include their independence disclosure in the report so long as the regulation or contract was clear on how the practitioner would make this determination or assessment. It would also be helpful to further emphasise the need to disclose clearly the criteria used by the practitioner to assess independence, if relevant, since these may be drawn from various sources.

Furthermore, this may be an area where exercise of professional judgement is required – as such, it may be helpful to include this as a specific example of professional judgement.

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.

We believe that it’s not clear in ED-4400 what would determine whether the practitioner is required to be independent or how that determination would be made.

We disagree with the requirement to state that you are not independent in circumstances in which there is no requirement to be independent. Readers of the 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.

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?

Findings is a challenging word as this is often used in a consulting or advisory service context where professional judgement and expertise has been applied.

KPMG Australia has historically used the phrase “factual findings” in accordance with the title of ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*.

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 ASRS 4400 doesn’t define the phrase “factual findings” as the definition implies what type of findings they are.

The “findings” definition in ED-4400 has also specified that “findings” does not refer to any recommendations that the practitioner may make. These additional explanations by their nature imply that there could be confusion over the term “findings”.

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?

We are generally supportive of the requirements and application material regarding engagement acceptance and continuance as extant ISRS 4400 only sets out requirements and guidance dealing with the terms of the engagement. Extant ISRS 4400 does not contain any requirements or application material on conditions required to be met before the practitioner can accept an AUP engagement so ED-4400 is an improvement; however, the standard is silent on the practitioner’s consideration of whether an assurance engagement may be required.

We believe that more should be done to differentiate an AUP engagement from an assurance engagement 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.

ASRS 4400 addresses this well. ASRS 4400 paragraph 7 and 21 repeatedly talk about the practitioner's responsibilities to ensure that agreed-upon procedures is the best fit for the needs of the client and to apply judgement to consider whether an assurance engagement is required. This pre-condition of consideration of whether the engagement should be assurance is articulated in paragraph 7 (b) and (d) as well as four more explicit mentions in paragraph 21 (a), (b), (d) and (f).

ED-4400 is silent on whether assurance should be required or not. Introducing pre-conditions to consider this matter up front would assist in consistent application and introduce a boundary of where the use of AUP is appropriate.

It is important that AUPs not be offered as a "cheaper assurance" alternative that also does not require independence so as to devalue the assurance offering. AUPs have a clear place in the market and there is professional judgement required to make choices about appropriate acceptance of engagements that do not cause any further confusion about the nature of this service.

It's also helpful to have the engaging party and any other intended users acknowledge their understanding and agreement of this but we agree with ED-4400 that this acknowledgement is not always practical to obtain from intended users.

A simple solution could be to apply the concept in paragraph 21 of ASRS 4400 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.

The standard could also benefit from an introduction similar to 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.

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.

Engaging party's acknowledgement

We are 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.

It would be helpful to guide practitioners to obtain a statement from the engaging party that to the "best of their knowledge and belief", or similar, 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. It is also unclear as to the expected further actions of the practitioner if they do not hear back from the intended users, or if there is disagreement between the engaging party and the intended user.

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 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).

We also note 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.

The standard also acknowledges that the engaging party may not be the party that is responsible for the subject matter information, or for the underlying subject matter. It would be helpful for the standard to provide more guidance around such situations, such as assessing the reliability of information and explanations, as well as consideration as to whether the practitioner will have access to information and explanations, as part of the preconditions, and additionally, whether the practitioner believes there is a rational purpose to the engagement.

Lastly, in addressing agreement to the terms of the engagement at paragraph 22, it would be helpful to include acknowledgement by the engaging party to provide information and explanations as required by the practitioner, and unrestricted access to persons at the entity. Although the procedures are clearly defined and agreed, it is still important that the engaging party acknowledges upfront that they need to provide information and access to the practitioner so that the practitioner can perform the procedures.

Terminology

We are supportive of the examples of potentially inappropriate terminology and guidance on the steps a practitioner may take i.e. A22-A26.

We also suggest including clearer links to the application of professional judgement in determining whether procedures are capable of being performed and described objectively, as well as in determining the level of granularity appropriate/ necessary in the description of procedures, both in agreeing the scope and in the report itself. For example, in some cases it will be appropriate for every test to be described in detail and in other cases it may be appropriate to group tests together under summary descriptions. As noted elsewhere in the ED, the key concept is that another practitioner would be able to replicate the test and obtain the same findings from the description. Accordingly, we are supportive that the ED allows practitioners to apply a degree of judgement in describing the procedures and findings where the nature and scope of the procedures are well understood by users.

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?

We recognise that the IAASB has attempted to introduce concepts in this area from auditing and assurance standards, to improve the understanding of the practitioner's responsibilities in this area.

However, we have concerns about the applicability of this concept to an AUP engagement. We note that experts (in matters other than auditing and accounting) may be used by an auditor in performing an audit but we believe this is less likely in an AUP engagement in which the practitioner is executing procedures over specific subject matter information.

If the practitioner does not have sufficient expertise in the underlying subject matter then it may not be appropriate for them to accept the AUP engagement. See also our comments earlier regarding the collective competence and capability of the engagement team and the fact that procedures must be capable of being performed objectively, should be capable of replication and the same findings obtained.

Use of an expert suggests that there may need to be use of professional judgement above and beyond what would usually be contemplated in an AUP engagement, and furthermore, that the findings from the procedures would not be capable of being objectively verified and described, which is a fundamental principle of an AUP engagement.

It would be helpful to include guidance that an expert's involvement should not be so extensive that they are essentially performing the majority of the procedures.

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?

We are generally supportive of the AUP report not being restricted to parties who have agreed to the procedures to be performed as this aligns to local market demand. As recognised by the IAASB's Exposure Draft, it is sometimes difficult to obtain agreement from all intended users.

A43 allows for a practitioner to apply a restriction of use should they wish to do so. We support the practitioner having the ability to make their own decisions on use and

distribution of the report and the conditions that they may choose to accept based on their risk appetite.

We note that there is an expectation gap regarding public perceptions as to what an AUP engagement is, what the procedures constitute and whether or not “assurance” is imparted. As a result, it would be helpful for the IAASB to provide further guidance as to the practitioner’s responsibilities to the intended users, in particular, for situations where there may be a lack of clarity as to whether intended users understand/agree on the procedures and/or the purpose of the engagement, as well as in situations where the report will be made more widely available, e.g. on a website, and therefore it is more difficult to identify the “intended” users or user groups, or to consider the needs of all user groups.

We also highlight that the statement that the report may not be suitable for another purpose is derived from ISA 800, in which the equivalent requirement is to include an Emphasis of Matter paragraph. Whilst such a paragraph would not be appropriate in an AUP report, as no opinion/conclusion is provided, it would be helpful for the standard to emphasise that the statement must be sufficiently prominent, e.g. to include a heading, and language that makes clear that this is a “warning”.

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?

We are generally supportive of the content and structure of the proposed AUP report set out paragraphs 30-32 and A37-A44 and Appendix 2; however, it does not seem practical to require the practitioner to include a statement on independence (paragraph 30 (f)) when independence is not a requirement of the standard nor the engagement.

As stated above, readers of the 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.

Our preference would be to only include a sentence on the practitioner’s assessment of independence in the report, including the criteria the practitioner used in the assessment, where independence is a requirement of the engagement.

We believe for clarity the practitioner should identify and make clear who the intended users of their report are and to restrict other parties from inadvertently relying on the report when it may not be appropriate to do so. It also makes it clear from a legal perspective to whom the practitioner owes a duty of care. This would also provide a clear boundary for the practitioner’s responsibilities.

We suggest to include identification of any procedures agreed in the terms of the engagement that could not be performed and why that has arisen.

It would be helpful to indicate in the guidance that there should be no inclusion of a management response to the practitioner's factual findings. Any management commentary on the practitioner's report should be made completely separate from the AUP report of factual findings.

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.

None noted. No translation requirement for KPMG Australia.

(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.

No issues with the proposed timing noted.

(c) Other comments

Although we are supportive of the practitioner providing recommendations in a separate report or a clear and distinct section of the report of factual findings, we believe it would be helpful to consider a boundary to this inclusion. It may be helpful to include observations, comments and high level recommendations but a practitioner may want to avoid providing so much detail that management simply adopts the recommendation without appropriate challenge or thought or confuses the engagement with a consulting or advisory style service.