



The Chair
Auditing and Assurance Standards Board
PO Box 204
Collins Street West
Melbourne VIC 8007

18 February 2019

Dear Professor Simnett

Consultation Paper: Agreed-Upon Procedures Engagements

We appreciate the opportunity to comment on the above mentioned Consultation Paper.

We have included our responses to the specific questions from the IAASB's Exposure Draft Proposed ISRS 4400 (Revised) *Agreed-Upon Procedures Engagements* in the Appendix to this letter.

We are pleased to note that the IAASB has included many of the aspects that were taken into account when the AUASB previously revised ASRS 4400.

We would be pleased to discuss our comments with you. Please contact me on (03) 8603 3285 should you require any further information.

Yours sincerely

Valerie Clifford
Assurance Risk & Quality Leader

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331 MELBOURNE VIC 3001
T: +61 3 8603 1000, F: +61 3 8603 1999, www.pwc.com.au

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Appendix 1 - Responses to specific questions from the IAASB's Draft Proposed ISRS 4400 *Agreed Upon Procedures*

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

Subject to our comments in response to the questions hereafter, we believe the proposed revisions represent an appropriate response to the public interest issues identified in relation to the conduct of an agreed-upon procedures (AUP) engagement. We are pleased to note that the IAASB has included many of the aspects that were taken into account when the AUASB previously revised ASRS 4400 to address stakeholder and public interest issues.

One of the most challenging public interest issues associated with AUP engagements is consistency in users' understanding of the nature and purpose of such engagements - making clear the distinction between AUP and assurance engagements. The changes relating to terminology used to describe AUPs are useful in that regard, which we comment on in response to question 6.

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?

We agree that a level of professional judgement is required in undertaking an AUP engagement and broadly support the proposed revisions to address this topic within the standard, including the specific examples used to illustrate where judgement is applied.

In performing the procedures, once agreed, the practitioner applies due care and competence in performing them, but the need to apply professional judgment is likely to be limited. As the practitioner reports findings only, we agree with the proposal in the Exposure Draft that it is important that the agreed-upon procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretation. Otherwise, there is a risk that users might draw unwarranted assurance. This will restrict the nature of procedures to those where there is less professional judgment involved in performing it or reporting the findings. We believe the intent of paragraph A16 is to recognise that there may be limited

judgement necessary in some circumstances. However, we believe a final sentence could be added that would more directly explain that a procedure that requires the exercise of more than a limited amount of professional judgement in performing it or in analysing the results thereof is unlikely to meet the engagement acceptance and continuance pre-conditions. An example to illustrate may also be useful.

Perhaps the most common application of professional judgement by practitioners is in assisting in the design of the procedures performed. Users may not know what procedures can be performed and the type of findings that would be reported. Therefore, the practitioner often works with the user to help design an appropriate AUP engagement that meets their needs, and that achieves the precondition that the procedures are described objectively and not using potentially misleading terminology. In doing so, it remains critical that the engaging party (and any additional intended users) ultimately takes responsibility for the appropriateness of the procedures. We therefore support the precondition in paragraph 20(a) that directly addresses obtaining acknowledgment from the engaging party of this responsibility.

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?

Yes. We consider the proposals to be a pragmatic and transparent solution, recognising the inherent challenges in addressing ethical considerations that are ultimately a matter for IESBA to consider in the Code of Ethics.

Recognising the spectrum of AUP engagements that exist, we believe IESBA could usefully articulate its views on whether there are engagement circumstances, taking into account the nature of the AUP engagement and the intended users of the AUP report, when the practitioner should be required to be independent. For example, independence may be seen as more relevant, and in the public interest, in relation to engagements to report to a regulator in relation to the use of public funds. In other cases, such as a private report to management, management or those charged with governance can more readily assess the importance of the practitioner's independence based on their understanding of the engagement circumstances.

Absent any direct legal or ethical requirement, the practitioner and the engaging parties can agree, within the terms of the engagements, whether independence is a necessary precondition.



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.

With respect to the required statement in the AUP report, we agree in principle. However, without being able to link back to specific IESBA independence requirements, the proposed independence statement in the report may become confusing to users, as inconsistencies in how the requirements are applied in practice and included within the AUP report may arise. We believe that it would be useful to provide an explanation and illustration of how the basis for the practitioner's statement may be articulated.

We also agree that, in the circumstances when the practitioner is not required to be independent, there would be no reasonable grounds on which to require the practitioner to make a formal assessment of their independence.

AUP engagement contacts can often be entered into with multiple parties. For example, a funding bank and entity in receipt of such funding, or a government granting authority and the entity in receipt of such grant. We recommend that the proposed standard provide clarity with respect to independence considerations and the proposed statement within the AUP report as to which entity(ies) this specifically applies when there are multiple "engaging parties". For example, we do not believe the intent is to address the practitioner's independence of any third-party engaging party such as a bank.

See also our response to question 3 regarding the requirement for an independence assessment.



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?

Yes. We understand the reason for the inclusion of paragraph A11. To provide some context we suggest it may be helpful to add “pursuant to local law, regulation or practice”.

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?

Yes. As noted in our response to question 2, it is important that the engaging party accepts responsibility for acknowledging the appropriateness of the planned procedures. We believe that any intended users other than the engaging party should also acknowledge the appropriateness of the planned procedures (in a similar manner to paragraph 22 of ASRS 4400)

We also welcome the additional guidance on terminology intended to drive clear and specific procedures and findings that are not open to varying interpretation.

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?

Yes. The proposals, based on the underlying principles when using an expert in an audit, are pragmatic and reasonable. It is important that the principle that the procedures to be performed, and related findings, should not require significant judgement and that they are capable of being described objectively be reinforced when using an expert. The use of a practitioner’s expert does not change this condition and we believe it may be useful to incorporate this message in the application material. The expert applies their competence and capabilities but is not being engaged due to the subject-matter requiring subjective interpretation. We therefore also support the proposed changes to the AUP report with respect to the practitioner’s overall responsibility for the procedures to be performed.

We believe that illustration 2 in Appendix 2 to the proposed standard could include a more useful example. It is unclear why the procedure as described in the illustration would require an external expert. Using the example of a chemist analysing toxin levels, from paragraph A35, may be a better example.



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 believe that there should be a distinction drawn between use of the report and distribution of the report. We support the current requirement in ASRS 4400 that restricts the use of the report to the engaging party and any other intended users who have agreed to the procedures being performed and for the purpose for which it was prepared.

Restricting the distribution of the report to any other party is ultimately a risk management decision for the practitioner.

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 support the proposed requirements in relation to the practitioner's report. We have no substantive comments on the proposed structure and content of the AUP report, noting that this is often prescribed in law or regulation resulting in more bespoke reports.

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.

An effective date of 18-24 months after approval of the final ISRS seems reasonable.

