



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **5.1.1**

Meeting Date: 12 September 2018

Subject: Agreed Upon Procedures (ISRS 4400)

Prepared by: Rene Herman

Date Prepared: 3 September 2018

Action Required

For Information Purposes Only

IAASB Project Objective	AUASB SMEs
(i) Redraft the standard using the clarity drafting conventions so that this standard is consistent with other IAASB International Standards.	Robin / Rene
(ii) Revise the standard to better reflect practice in Agreed-Upon Procedures (AUP) engagements being undertaken.	
AUASB Key Points	
Background, overall comments and what is required from the AUASB	
<ul style="list-style-type: none"> • At the March 2018 AUASB meeting, the Audit Technical Group (ATG) provided the AUASB with a project status update in relation to the revised international project on Agreed Upon Procedures. At that meeting, the ATG noted that the IAASB standard was progressing in the direction expected by the AUASB and consistent with the Australian standard with the exception of the exercise of professional judgement; and independence. • The IAASB has accelerated their timetable with respect to AUP's, and at the IAASB September 2018 meeting is seeking approval to issue the Exposure Draft of proposed ISRS 4400 for public consultation. To facilitate an accelerated timeframe, the IAASB held a teleconference in August 2018 to discuss the matters of professional judgement and ethics. <ul style="list-style-type: none"> ○ The ATG provided feedback on the August 2018 IAASB meeting papers directly to the 2 Australasian IAASB members. The ATG had concerns in the area of the exercise of professional judgement, where it was appearing as though the IAASB may be going down a different path to the Australian ASRS 4400. ○ The ATG were observers on this teleconference and noted that the comments provided to the Australasian members were raised on the teleconference. • The ATG noted that there were varying views expressed by IAASB members on the role of professional judgement in an AUP engagement and by the end of the call, it was noted that this area was contentious with no current consensus one way or another. • The ATG has provided below a summary of key matters arising from the review of the September 2018 AUP meeting papers. The most significant matters relate to: 	

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- exercise of professional judgement that is still not aligned to the current Australian position (refer key point 1 below for analysis); and
- use versus distribution of an AUP report (refer key point 3 below for analysis).

What the ATG is seeking from the AUSAB at this September meeting:

- The ATG expect that the IAASB will vote to issue this draft standard as an exposure draft at its September 2018 meeting. Accordingly, now is a key time for the AUASB to provide comments into the IAASB.
- The ATG is seeking comments / input from the AUASB on the matters described below as well as feedback on the proposed timetable / timeline

Key Points arising from review of IAASB September 2018 papers

1. Professional Judgement:

The basis for concern

One of the differentiating factors between an agreed-upon procedures engagement and an assurance engagement is the extent to which the assurance practitioner's professional judgement is exercised in selecting procedures. The major distinguishing feature between assurance engagements and AUPs, widely agreed, is that:

- in an agreed-upon procedures engagement, professional judgement may be exercised in assisting the engaging party to identify procedures when agreeing the terms of the engagement, but only professional competence and skill is exercised in conducting the procedures and in this way adds value to the engagement; while
- in an assurance engagement, professional judgement is exercised in both selecting and conducting procedures.

Therefore, one of the most significant attributes of an agreed-upon procedures engagement is the lack of subjectivity in both the procedures and the resultant factual findings. Applying judgement requires a level of subjectivity, so the AUASB considers that it is not be appropriate for the practitioner to exercise professional judgement when conducting agreed-upon procedures.

AUASB technical group comment on draft ISRS 4400:

On a close reading of the draft standard, the AUASB technical group can see a logical build to the draft ISRS 4400 in relation to the exercise of professional judgement. To build up to what ASRS 4400 currently has in its paragraph 25 (see below) will require a complete read of paragraphs 14(b), 19, 21(b), 22(h), 26, A15-A17 of draft ISRS 4400. In contrast, while the Australian ASRS 4400 requirement comes out with a clear statement in paragraph 25 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 ISRS 4400 draft is more subtle in this respect.

Paragraph 25 of ASRS 4400:

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.

Recommendations by the ATG:

- a. The ATGs primary recommendation is the adoption of the wording from paragraph 25 of ASRS 4400.
- b. Recognising that this is unlikely to be achieved, the ATGs second option is to tighten up and consolidate the content of paragraphs 19, 21(b), 22(h) and A15-A17 so as to come up with a simplified single paragraph that explains how professional judgement is exercised in AUP engagements. This would require a rewrite of these paragraphs.
- c. The third and least preferred option that the ATG suggests is:
 - the wording of paragraph 19 could be tightened to read: *The practitioner shall apply professional judgement taking into consideration the nature of the procedures agreed to be performed in the terms characteristics of an agreed-upon procedures engagement.*
 - Additionally, the words currently used in paragraph 21(b) could be moved and included within paragraph 22(h), so that paragraph 22(h) reads: *Nature, timing and extent of the procedures to be performed, need to be described objectively, in terms that are clear, not misleading and not subject to varying interpretations.*

- d. The AUASB Chair will share recommendations a)-c) above with the IAASB Australasian members and other IAASB members recognising that a) above is the most preferable but that c) may be the most pragmatic approach given that this exposure draft is expected to be approved at the September IAASB meeting. The AUASB submission to the IAASB exposure draft can then push for recommendation a).

Question for AUASB: Does the AUASB agree with the recommendation outlined in d) above? Any other views in relation to the exercise of professional judgement?

2. Parties involves in AUP engagement / Engagement acceptance:

- a. intended users – definition Agenda Item 5A Para 9(d) inconsistent with ASRS 4400. IAASB definition – “will use report” verses AUASB definition “for whom report is prepared”. IAASB definition – wider capture.

Technical Group Comment:

The only time the use of the term intended users arises in the requirements of ISRS 4400 is in relation to the definition of an agreed upon procedures engagement (refer below). :

An engagement in which a practitioner is engaged to carry out those procedures to which the practitioner and the engaging party have agreed and to report the procedures performed and the related findings. The engaging party and intended users assess for themselves the procedures and findings reported by the practitioner and draw their own conclusions from them.

ASRS 4400 has a requirement that puts the onus on the practitioner to obtain an understanding of the needs and objectives of the intended user.

Proposed ISRS 4400 takes the view that it is the engaging parties and not the practitioners’ responsibility to determine that the intended users understand the procedures and that the procedures are appropriate for their purpose. To this end paragraph A23 explains that agreeing the procedures to be performed with the engaging party helps to provide the engaging party with a basis to acknowledge that the procedures to be performed are appropriate for the purpose of the engagement; and paragraph A28 focuses on actions that the engaging party may take (for example, discussing proposed procedures with intended users) so that the engaging party is able to acknowledge the appropriateness of the procedures to be performed.

Technical Group Comment: The ATG does not foresee any issues with this change of direction and considers this to be practical.

Question for AUASB: Does the AUASB agree with the ATG comment above?

3. Restriction on use/distribution of reports

- a. Paragraph A28 – demonstrates how the intended user may be informed of the AUP procedures where they may not be a party to the engagement letter.
- b. Paragraph 29(1) – purpose of report and may not be suitable for other purpose.
- c. Paragraph A42 – may include restriction on use or distribution.

Technical Group Comment:

Australian ASRS 4400:

The AUASB made a distinction between *use* of an AUP report and *distribution* of such a report, this distinction was deliberately included in the requirements of ASRS 4400. 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.

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. A restriction **on use** paragraph is required to include in an AUP report.

<p><i>Proposed ISRS 4400:</i></p> <p>A restriction on use is not clear from the draft ISRS 4400.</p> <ul style="list-style-type: none"> • There is no requirement within the proposed standard to restrict use. • Paragraph A42 provides application material on purpose, restriction on use or distribution. The restriction wording used in the example AUP report within the draft ISRS 4400 is '<i>solely for the purpose of assisting...and may not be suitable for another purpose. The report is intended solely for the [engaging party] and [intended users], and should not be distributed to any other party</i>' <p><i>ATG proposals:</i></p> <ul style="list-style-type: none"> • A restriction on use requirement should be included within paragraph 29 • Paragraph A42 and the example report should remove reference to restriction on distribution as practically this is not possible. <p>Question for AUASB: Does the AUASB agree with the ATG proposals above?</p> <p><u>Other matters arising from review of IAASB September 2018 papers</u></p> <p>1. Independence:</p> <p>a. 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.</p> <p>b. Proposed ISRS 4400 requires the practitioner to comply with relevant ethical requirements. The application material, paragraphs A11-A12, supporting this requirement is unclear. The ATG is seeking further clarity on these paragraphs to understand the implications.</p> <p><i>Technical Group Comment:</i></p> <p>The ATG is seeking further clarity on these paragraphs to understand the implications, this may be an area that requires jurisdictional amendments/clarification.</p>
<p><u>IAASB Timeline and impact on AUASB activities</u></p> <ol style="list-style-type: none"> 1. Expect IAASB vote to issue ED on ISRS 4400 for a 120 day consultation period. Expect consultation period to close end January 2019. 2. If ED approved, late October / early November 2018 outreach by AUASB by way of roundtables in Sydney and Melbourne. 3. Draft response of AUASB submission to IAASB exposure draft to be available for discussion at the December 2018 AUASB meeting.
<p><u>AUASB influencing activities</u></p> <p>ATG to prepare briefing notes for distribution to Australasian IAASB members and AUASB Chair – particularly to continue to highlight concerns in relation to professional judgement. AUASB Chair will be in attendance at the September 2018 IAASB meeting as an observer and will have the opportunity to express the Australian view to other non-Australasian IAASB members.</p>
<p><u>Next steps / milestones for this project</u></p> <p>Refer timeline above.</p>

Material Presented

Agenda Paper 5.1.1	AUASB Board Meeting Summary Paper
Agenda Paper 5.1.2	ISRS 4400 Revised Requirements Clean
Agenda Paper 5.1.3	ISRS 4400 Revised Application Material Clean

Action Required

No.	Action Item	Responsibility	Due Date
1.	The ATG is seeking comments / input from the AUASB on the matters described below as well as feedback on the proposed timetable / timeline	AUASB	12 September 2018
