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Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue, 6th Floor  
New York, 10017 NY  
USA

On-line submission

Dear Willie

**Submission on Exposure Draft Proposed International Standard on Related Services ISRS 4400 (Revised) Agreed-Upon Procedures Engagements**

CPA Australia represents the diverse interests of more than 163,000 members working in 125 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports the revision of ISRS 4400, which needs to reflect current practice, and agrees that the IAASB has identified the key issues and sought to respond to those in the exposure draft. We have reached out to our members and CPA Australia Board members to gather views on this exposure draft.

The standard for agreed-upon procedures engagements (AUPs), [ASRS 4400 Agreed-Upon Procedures Engagements to Report Factual Findings](#) (ASRS 4400), was completely revised in Australia by the Auditing and Assurance Standards Board (AUASB) in 2011 and updated in 2013. ASRS 4400 has received broad support since it was revised and no significant implementation issues have been identified. We understand that the IAASB has used ASRS 4400 as a resource for developing this exposure draft.

In summary our comments are:

1. Difference between AUPs and assurance engagements: Illustration of the differences between an AUP engagement and an assurance engagement and how each may be scoped, even if they relate to the same subject matter, is recommended, as included in the Australian Standard ASRS 4400 Appendices 1 and 2.
2. Professional judgement: the extent to which professional judgement can be applied in an AUP needs to be clarified in the requirements. As professional judgement is limited to the activities listed in the application material, the requirements need to reflect the basis for the difference in professional judgment which is appropriate for an AUP in contrast to an assurance engagement. The requirements could explicitly identify, for example, that professional judgment cannot be applied to altering the scope (nature or extent) of the procedures to be conducted or evaluating the findings, as only factual findings are reported.
3. Practitioner's independence: a clear statement should be required on whether or not the practitioner is independent and, if so, the independence framework which was applied.
4. Further recommendations: retain the term "factual findings"; greater consideration of whether the engagement has a rational purpose and if assurance is more appropriate when accepting an engagement; and a clearer statement on the purpose of the report and reference to the intended users.

Our responses to the consultation questions are set out in Appendix 1.

If you require further information on our views expressed in this submission, please contact Claire Grayston, Policy Adviser – Audit & Assurance, on +61 3 9606 5183 or at [claire.grayston@cpaaustralia.com.au](mailto:claire.grayston@cpaaustralia.com.au).

Yours sincerely



Dr Gary Pflugrath  
Head of Policy and Advocacy

## APPENDIX 1

Our responses to the consultation questions are set out below.

### Overall Question

#### **Public Interest Issues Addressed in ED-4400**

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

A key purpose of a standard on AUPs should be to differentiate these engagements from audits, reviews or other assurance engagements, where an opinion or conclusion is provided, so that users do not misunderstand what value the report provides and do not place the level of reliance on the underlying subject matter as they would on an assurance engagement. Such differentiation is primarily necessary when practitioners provide both assurance and non-assurance services to the same client. In such circumstances, users may get confused that an AUP is a similar service to an assurance engagement, which also provides some form of assurance. This clarification is needed to meet stakeholder needs and address the public interest.

While we consider that this has been achieved to a large extent in ED-4400, meeting user needs and the public interest could be further addressed by clarification of distinguishing features of an AUP as opposed to an assurance engagement. Illustration of the differences between an AUP engagement and an assurance engagement and how each may be scoped even if they relate to the same subject matter would be useful. These differences are set out in the Australian standard ASRS 4400 in the following tables:

- Appendix 1 *Differentiating Factors between Agreed-Upon Procedures Engagements and Assurance Engagements*
- Appendix 2 *Examples of Differences in Scope between an Agreed-Upon Procedures Engagement and an Assurance Engagement.*

### 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?**

We consider that it is important to address the role of professional judgement in an AUP and so we are supportive that this has been included in the proposed standard. The way professional judgement is applied is a key differentiating factor which sets assurance engagements apart from non-assurance engagements, including AUPs. This is acknowledged in the explanatory memorandum Paragraph 11 which states “the application of professional judgment when performing procedures in an AUP engagement differs from that in an assurance engagement”. We support the delineation in the application paragraphs between the extent to which professional judgement can be applied in an AUP in contrast to an assurance engagement, however we do not think that difference is adequately reflected in the requirement itself.

The requirement (paragraph 18) states that professional judgement shall be applied “in accepting and conducting an agreed-upon procedures engagement” (emphasis added), without specifying that the exercise of judgement is limited in an AUP engagement. The aspects of an AUP engagement where professional judgement may be applied are explained in the application material (paragraphs A14-A16) and we are supportive of that interpretation. However, “conducting” is a broad term, which could reasonably be interpreted to include aspects of the engagement which may be subjective, such as determining the procedures to be conducted, modifying those procedures or evaluating the findings. This subjectivity in relation to determining procedures is only appropriate in an assurance engagement, where an assessment of the sufficiency and appropriateness of the evidence is necessary. Some of our members feedback has indicated that they see value in applying professional judgement in conducting an AUP as it can be seen

as synonymous with the practitioner's exercise of professional competence and skill. Therefore, we recommend that, if professional judgement is retained in conducting the engagement, that the requirement is amended to limit professional judgement to enabling the competent conduct of the agreed procedures without the practitioner taking responsibility for determining the procedures to be conducted, modifying those procedures or evaluating the findings.

The IESBA Code of Ethics for Professional Accountants (the Code) requires professional accountants to comply with the fundamental ethical principles, including professional competence and due care, in all of their work, but the Code notes that certain services are routine and mechanical in nature and so require little or no professional judgement. We consider that to be the case in an AUP engagement.

The equivalent standard issued in Australia sets out the position more explicitly, in ASRS 4400 paragraph 25, by stating 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" (emphasis added). A similar requirement could be included in ISRS 4400.

### ***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?**

In Australia the equivalent standard, ASRS 4400, requires the practitioner to be independent unless the engaging party has specifically agreed otherwise in the terms of engagement. That standard has been well accepted since it was first issued in 2011. Nevertheless, we consider that independence may not need to be a precondition for an AUP engagement, if it is clear to users when the practitioner is not independent. In addition, if the practitioner states that they are independent, we suggest that they be required to state the applicable Independence Framework applied. Whilst the Code does not provide independence requirements for related services engagements, it does not preclude application of independence to such engagements, using the framework for audit or other assurance engagements as appropriate. Similarly independence requirements, beyond the principle of objectivity, are not contemplated in the Code for insolvency practitioners, forensic accountants or independent experts..

In some circumstances instead of including the independence requirement in the AUP standard, regulatory requirements for AUPs or the terms of engagement can require the practitioner to be independent if appropriate. We support the inclusion in terms of engagement (paragraph 22(d)) of the relevant ethical requirements with which the practitioner will comply and whether the practitioner is required to be independent.

- 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 recommend that whether or not the practitioner is independent needs to be made clear, and, if so, against which framework their independence has been assessed, not only to the engaging party in the terms of engagement, as noted in answer to question 3 above, but also to users by including a statement in the report of factual findings. Therefore, we agree that the scenarios provided in paragraph 22 are appropriate only where a "yes" or "no" response can be provided to whether the practitioner is independent, with the additional clarification of the independence framework applied. The independence framework applied may be that provided in the Code for audit or other assurance engagements or a regulatory framework. We consider that an independence assessment is necessary in order to inform users, as this

may impact the reliance they place on the report. In practice an AUP engagement is typically sought when it is a regulatory requirement, which in Australia is often in combination with an audit or review engagement, or where the engaging party is relying on the competence and expertise of a practitioner experienced in audit and assurance to conduct the procedures. If the report is silent on independence, users may assume that the practitioner is independent as the engagement is conducted under the auditing and assurance standards issued by the IAASB.

### **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?**

We recommend retention of the term “factual findings” rather than “findings” because the term findings can imply an evaluation of the evidence akin to an assurance engagement. An AUP is intended to provide statements of fact which are objective. The practitioner has not evaluated the findings to provide a conclusion or opinion and so is only able to present the factual findings. The new definition for findings states that they are the “factual results of the procedures performed”, but simply using “factual findings” avoids the need to clarify what the term “findings” means.

### **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 requirements and application material are appropriate, however they could be further enhanced by including requirements that the practitioner does not accept the engagement as an AUP engagement if:

- The engagement does not have a rational purpose or is unlikely to meet the needs of intended users.
- It is necessary for the practitioner to determine the sufficiency of the procedures to be performed, perform a risk assessment, evaluate the findings or reach a conclusion, as this indicates that an assurance engagement is appropriate.

### **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 agree with the requirements and application material in relation to use of a practitioner’s expert, however, in addition the requirement in paragraph 28 could be enhanced to require the scope of the expert’s work to appropriately reflect an AUP. The scope of an expert’s work should not require the expert to determine the sufficiency of the procedures to be performed, perform a risk assessment, evaluate the findings or reach a conclusion when conducting the procedures agreed, as these are elements of assurance engagements.

### **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 agree that the AUP report does not need to be restricted to parties that have agreed the procedures and that other parties – intended users – can be identified in the report even if those individuals or groups are not party to the terms of engagement. We support, as a minimum, inclusion of the purpose of the AUP report and a warning to users that the report is prepared only for that purpose. To this end we suggest that the wording of the requirement in paragraph 30(m) could be clearer by stating “Identification of the purpose of the agreed-upon procedures report and a statement that the agreed-upon procedures report ~~may not be suitable~~ is not intended for another purpose”. We further suggest that identification of the intended users in

the engagement letter and AUP report could be contemplated or encouraged in the standard even if it is not a requirement, to complement the understanding of the intended users' needs in paragraph A26.

The Australian standard, ASRS 4400, includes a restriction on "use" of the report and a disclaimer, however it does not include a restriction on "distribution". The reason for this distinction is that it is difficult to limit the distribution of the report, especially as some regulators require AUP reports and may make them available publicly, however how that report is used can be restricted. We have received mixed feedback regarding whether the restrictions on use and disclaimer are suitable in all circumstances and therefore consider that the IAASB's solution is a reasonable compromise, with the amendment suggested above, as it identifies the purpose of the report and provides the option of including restrictions on distribution or use or a disclaimer when appropriate.

**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?**

Whilst we support the structure and content of the AUP report broadly, some amendments would be needed to address our comments to the questions above including:

- Paragraph 30 (f) and (g) - combine and amend to require only whether or not the practitioner is independent and, if so, the independence framework which has been applied.
- Paragraph 30 (m) – amend as follows: Identification of the purpose of the agreed-upon procedures report, including the intended users if different to the engaging party, and a statement that the agreed-upon procedures report ~~may not be suitable~~ is not intended for another purpose.
- Appendix 2 – reflect the amendments recommended for paragraph 30 (f), (g) and (m) and provide optional wording for a restriction on distribution or use or a disclaimer.

**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.**

No comments

**(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.**

We consider that about 18 months after approval would be ample time to allow for implementation of the revised standard. The issues raised in this exposure draft were addressed in Australia, albeit with somewhat different solutions, when the equivalent standard was completely revised in 2011. That standard has been successfully implemented in practice since it was issued.