

15 September 2020

Robert Buchanan  
The Chair  
New Zealand Auditing and Assurance Standards Board  
Level 7 50 Manners Street  
Wellington  
New Zealand 6011

Submission via [www.xrb.gov.nz](http://www.xrb.gov.nz)

Dear Robert

### Submission on Exposure Draft ED 2020-2: ISRS (NZ) 4400 Agreed-Upon Procedures Engagements

As the representatives of over 30,000 professional accountants in New Zealand, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia thank you for the opportunity to comment on the above Exposure Draft ("the ED").

Both professional organisations supported the IAASB's recent update of international standard on related services ISRS 4400 (Revised) *Agreed-Upon Procedures Engagements* in April 2020. We also support the NZAuASB's policy to seek convergence where possible with the IAASB's standards, and welcome the NZAuASB's revised mandate, which allows it to be the standard setter for related services engagements, including agreed upon procedures engagements, which apply to members of both CA ANZ and CPA Australia.

Therefore, we support the NZAuASB proposals to align its new standard with ISRS 4400(Revised), as set out in the ED. This continues the approach adopted by the New Zealand Regulatory Board of NZICA (NZRB) when it reissued its current standard (APS-1(revised) *Agreed Upon Procedures Engagements to report factual findings (APS-1(revised))*) in 2018. At the time it was aligned to both the extant international and Australian standards.

In stating our support, we recognise that realigning New Zealand requirements for agreed upon procedures engagements to the new ISRS 4400 (Revised) involves some important changes to the mandatory requirements that currently apply under APS-1(Revised). This is particularly the case in the areas of independence and restrictions on the use of reports where the proposed requirements have been relaxed.

We supported these relaxations at an international level provided that options to adopt more restrictive practices were retained for individual jurisdictions to adopt as necessary. We are satisfied that the proposed new requirements, set out in ED 2020-2, permit New Zealand practitioners and their clients to continue to observe the more restrictive practices they are familiar with in these areas, should the circumstances of their individual engagements make that

appropriate. Therefore, we agree that there are no compelling reasons to amend the international standard for these matters.

Nevertheless, we recommend that the NZAuASB considers the development of additional guidance to support the release of ISRS (NZ) 4400, supplementing the material the IAASB has indicated they are currently preparing to support ISRS 4400 (Revised). We expect many New Zealand practitioners will continue to implement the existing, more onerous but well accepted, requirements from extant APS-1 (Revised) on matters such as independence and restrictions on the use of reports. Therefore, clear guidance supporting these choices, drawn from what is currently included in APS-1 (Revised), will ensure that New Zealand practice in these areas remains appropriately consistent.

We discuss these matters further in our responses to the specific questions raised by the NZAuASB in the **Attachment** to this letter.

If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) [amir.ghandar@charteredaccountantsanz.com](mailto:amir.ghandar@charteredaccountantsanz.com) or Claire Grayston (CPA Australia) at [claire.grayston@cpaaustralia.com.au](mailto:claire.grayston@cpaaustralia.com.au).

Yours sincerely

**Simon Grant FCA**  
Group Executive – Advocacy, Professional  
Standing and International Development  
**Chartered Accountants Australia and  
New Zealand**

**Dr Gary Pflugrath CPA**  
Executive General Manager, Policy and  
Advocacy  
**CPA Australia**

## Attachment

### Independence – Requirement

#### 1. Do you agree that the practitioner is not required to be independent when performing an AUP engagement? If not, why not?

We agree that an independence requirement does not necessarily provide value to users of an AUP engagement and should only be applied if it is required by them. In our view, requiring practitioners to be, and be seen to be, independent in all circumstances imposes unnecessary and costly preconditions that could preclude the provision of AUP engagements to clients where demonstrable independence benefits are less clear.

Notwithstanding this, we acknowledge that independence requirements are currently included in the extant APS-1(Revised), with paragraph 16 mandating independence equivalent to that applied to “other assurance engagements.” These requirements are supported by New Zealand stakeholders as a means of adding value and credibility to these engagements. It is therefore likely that users and engaging parties may choose to continue to include independence requirements in their engagements, especially where these engagements are performed by the entity’s auditors.

The ED allows for this choice to be implemented and the proposed disclosures surrounding independence, where it is required, are simple and clear. Therefore, we agree with the NZAuASB’s view that this change does not provide the NZAuASB with a compelling reason to amend the international requirements.

We expect that the educational material the IAASB is currently preparing to support ISRS 4400 (Revised) will clearly explain why independence is not a necessary precondition for an AUP engagement. This should help better inform users, engaging parties and practitioners about the requirements they need to include in their engagement documentation.

However, given that current practice in New Zealand does implement independence requirements, we recommend that the NZAuASB supplement the IAASB material with example independence wording suitable for use in the New Zealand environment. This would ensure that the standard continues to provide a clear framework for practitioners if users and engaging parties still wish independence requirements to be applied for an AUP engagement. It would also assist practitioners with the consistent application of independence when required. This supplementary material could be drawn from the extant APS-1 (Revised) and updated for the current PES 1 *Code of Ethics for Professional Accountants (including Independence Standards)*. We recommend that this material provides examples of both the engagement letter and AUP report for the circumstances when either independence equivalent to “other assurance engagements”, or modified independence is required by the client, for an AUP engagement.

### **Restriction on use**

#### **2. Do you agree that the AUP report should not require a restriction on use or distribution paragraph? If not, why not?**

In our separate submissions to the IAASB's ED on ISRS 4400 (Revised), CA ANZ and CPA Australia supported the approach that the international standard should permit, but not require, practitioners to impose report restrictions as a pragmatic approach to accommodate the disparate needs of different jurisdictions while issuing an internationally workable standard. We also identified that without a report restriction, the AUP report should provide a clear statement of purpose in order to ensure that the report was only relied upon by those for whom it was prepared.

Since the proposals in the ED allow for the practitioner to determine which restrictions are appropriate to the particular circumstances of the engagement and require the AUP report to identify a clear statement of the purpose of the engagement, we support the proposals.

However, we also acknowledge that the established practice in New Zealand under paragraph 41 of extant APS-1 (revised) is that reports are restricted to those parties who have either agreed to the procedures or who are specifically included as users in the engagement letter. The requirement responds to legal concerns around professional indemnity which the new standard will not change. Therefore, we expect that many practitioners will continue to restrict their reports as they do now. Since this option is permitted under the proposed standard, we agree that no compelling reasons exist to amend the international standard for adoption in New Zealand.

We acknowledge that the ED already provides some guidance on imposing report restrictions and understand that the IAASB may provide more in its forthcoming implementation guidance for ISRS 4400 (Revised). Therefore, we encourage the NZAuASB to consider this guidance and, if necessary, supplement it with example wording from the extant APS-1 (Revised). Such guidance would promote consistency.

### **Professional judgement**

#### **3. Do you support the way the exercise of professional judgement is dealt with in the exposure draft? If not, why not?**

We do not consider that the current wording of the ED is as clear as the extant APS-1 (Revised) regarding the key limits that apply to the use of professional judgement in an AUP engagement. Nevertheless, we support convergence with the IAASB standard and accept the NZAuASB's view that the requirements in the ED adequately address the extent to which professional judgement plays a limited role in these engagements.

However, since the differences in the way professional judgement applies in AUP and assurance engagements is a key area of confusion for many stakeholders, we recommend that the NZAuASB encourage the IAASB to develop clear guidance material on this matter and supplement it as necessary. This will be vital to ensuring consistent implementation of the new standard.

This guidance could include clarification of the documentation needed to identify where and why the practitioner exercised professional judgment. This would provide a practical means of drawing attention to the specific elements of the engagement and the need to ensure that professional judgement is only exercised as appropriate for each of these elements.

### **Quality Control**

#### **4. Is use of the term relevant quality control standards clear? If not, please explain why not and provide suggestions as to an alternative way to describe the relationship to quality control standards.**

We consider that the use of the term “relevant quality control standards” is sufficiently clear to guide practitioners to the relevant requirements until such time as the NZAuASB is able to revise Professional and Ethical Standard (PES) 3 (Amended), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance* to incorporate the extension of its mandate and the forthcoming international reforms.

CA ANZ and CPA Australia are willing to assist in this matter, by including in their member communications reminders that this term refers to PS-1 *Quality Control* issued by the New Zealand Institute of Chartered Accountants and APES 320 *Quality Control for Firms* respectively, until PES 3 is amended to include standards on related services.

### **Effective date**

#### **5. Do you agree with the proposed effective date? If not, please explain why not?**

We agree with the proposed effective date, which is consistent with that contained in ISRS 4400 (Revised).

### **Other matters**

#### **6. Any other comments?**

One of the impacts of moving from APS-1 (revised) to ISRS (NZ) 4400 is to shift the application of the standard from “member” in the extant standard to a new term “practitioner”.

We appreciate that the ED has defined the term practitioner as “the individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm).” It also clarifies that when a requirement or responsibility is expressly intended to be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used and these terms are defined.

In addition, we acknowledge that the NZAuASB has recognised that these definitions do not explicitly refer to public sector practitioners. We support inclusion of public sector practitioners in the scope of the standard by way of a footnote in the definition of engagement partner.

However, these clarifications fail to recognise that “practitioners” may also work in industry and commerce as well as in public practice and the public sector. The External Reporting Board’s own definition of “assurance practitioner” in the recently updated *Au 1 Application of Auditing*

*and Assurance standards* acknowledges this, defining an “assurance practitioner” as “a person or an organisation, whether in public practice, industry, commerce or the public sector, appointed or engaged to undertake assurance engagements”. We note that this definition needs to be further amended now to reflect the NZAuASB’s revised mandate by adding “or related services engagements”.

We therefore consider that the definition of ‘practitioner’ in the ED be further modified to ensure that its scope includes members in industry and commerce conducting AUP engagements.

We appreciate that the use of the broader term could mean that the understanding of the necessary skill sets, and evidence-based issues, may be less clear to those without an assurance background who take on AUP engagements. Therefore, we recommend that the NZAuASB review the forthcoming IAASB guidance to ensure practitioners are reminded of their ethical obligations to meet the fundamental ethical principle of professional competence and due care.