



**Australian Government**

**Auditing and Assurance Standards Board**

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19 April 2017

Mr Matt Waldron  
Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 5th Avenue, 6th Floor  
New York, New York 10017 USA

Dear Matt,

***AUASB Submission on IAASB Discussion Paper – Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB’s International Standards***

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the IAASB’s Discussion Paper *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB’s International Standards* (DP).

The AUASB is supportive of this DP, particularly in light of the increasing demand for agreed-upon procedures engagements globally. The DP builds on the Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* and the AUASB has had significant input into this paper through the prior AUASB Executive Director’s involvement in the AUPs IAASB working group. We are very interested in this project and are happy to offer our assistance to the task force if needed.

In formulating its response, the AUASB has sought input from its constituents in several ways. The first was targeted input from assurance providers from medium and large audit firms, audit regulators, professional accounting bodies, directors and academics. The second was by an open invitation to provide comments placed on the AUASB website; and the third was by way of subsequent formal discussions by the AUASB members at recent board meetings.

Our matters of particular importance for the IAASB’s consideration are elaborated on further in the detailed submission attached.

Should you have any queries regarding this submission, please do not hesitate to contact Rene Herman ([rh Herman@auasb.gov.au](mailto:rh Herman@auasb.gov.au)).

Yours sincerely,

Roger Simnett  
Chairman

**AUASB Submission on IAASB Discussion Paper – Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB’s International Standards**

**Q1 and Q2**

**The Role of Professional Judgment and Professional Scepticism in an AUP Engagement**

*Results from the Working Group’s outreach indicate that many stakeholders are of the view that professional judgment has a role in an AUP engagement, particularly in the context of performing the AUP engagement with professional competence and due care. However, the procedures in an AUP engagement should result in objectively verifiable factual findings and not subjective opinions or conclusions. Is this consistent with your views on the role of professional judgment in an AUP engagement? If not, what are your views on the role of professional judgment in an AUP engagement?*

**The Role of Professional Judgment and Professional Scepticism in an AUP Engagement**

*Should revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?*

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.

One of the differentiating factors between an agreed-upon procedures engagement and an assurance engagement is the extent of assurance practitioner’s professional judgement exercised in selecting procedures. 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. However, in an assurance engagement, professional judgement should always be applied in selecting and conducting the assurance procedures themselves.

The Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*, paragraph A11 states: *In an agreed-upon procedures engagement, as the assurance practitioner does not express a conclusion, it is the engaging party’s responsibility to determine the procedures which will provide sufficient appropriate evidence to support their own or intended users’ conclusions. It is only appropriate for the assurance practitioner to select the procedures if they will be assessing the evidence to support a conclusion provided in an assurance engagement.*

While a user may place reliance on the factual findings of an assurance practitioner in an agreed-upon procedures engagement by virtue of the practitioner’s professional skill in conducting the agreed-upon procedures, this reliance does not amount to the provision of assurance. In contrast, for an assurance engagement the practitioner exercises their professional judgement to determine the procedures necessary to gather sufficient appropriate evidence on which to base a conclusion, which provides assurance to the intended user.

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

**Q3**

**The Independence of the Professional Accountant**

*What are your views regarding practitioner independence for AUP engagements? Would your views change if the AUP report is restricted to specific users?*

The AUASB is of the view that the assurance practitioner, when carrying out procedures of an assurance nature and reporting factual findings, needs to either be independent or to have agreed modified independence requirements with the engaging party and both agreed and disclosed those modified independence arrangements with intended users.

The Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* 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.

ASRS 4400, paragraph 17 *When conducting an agreed-upon procedures engagement, the assurance practitioner shall comply with ethical requirements equivalent to the ethical requirements applicable to Other Assurance Engagements\*, including those pertaining to independence, unless the engaging party has explicitly agreed to modified independence requirements in the terms of the engagement. If modified independence requirements have been agreed in the terms of the engagement, the level of independence applied shall be described in the report of factual findings.*

#### Q4

##### **Terminology in Describing Procedures and Reporting Factual Findings in an AUP Report**

*What are your views regarding a prohibition on unclear or misleading terminology with related guidance about what unclear or misleading terminology mean? Would your views change if the AUP report is restricted?*

The AUASB is supportive of guidance on what constitutes unclear or misleading terminology, however notes that the practitioner's report needs to be in sufficient detail to enable the users to draw their own conclusions. Guidance could be in the way of examples. The AUASB considers that prohibiting terminology could make the standard too prescriptive.

The Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* paragraph 47, touches on this issue "The report of factual findings for an agreed-upon procedures engagement shall be clearly distinguished from an assurance report in that it shall not contain: (a) .....; (b) inappropriate use of the terms "assurance", "audit", "review", "opinion" or "conclusion".

#### Q5 and Q6

##### **AUP Engagements on Non-Financial Information**

*What are your views regarding clarifying that the scope of ISRS 4400 includes non-financial information, and developing pre-conditions relating to competence to undertake an AUP engagement on non-financial information?*

##### **AUP Engagements on Non-Financial Information**

*Are there any other matters that should be considered if the scope is clarified to include non-financial information?*

The AUASB agrees with clarifying that the scope of ISRS 4400 includes non-financial information, and developing pre-conditions relating to competence to undertake an AUP engagement on non-financial information. An example of a non-financial AUP engagement may be a controls engagement to meet contractual obligations

The Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* is not limited to "financial information". This standard includes requirements for the assurance practitioner to only accept the engagement if those persons who are to perform the engagement collectively have the capabilities and competence to perform the procedures;

\* For ethical requirements specifically relating to Other Assurance Engagements, refer to APES 110 *Code of Ethics for Professional Accountants* (as referenced in ASA 102), section 291 Independence - Other Assurance Engagements, issued by the Accounting Professional & Ethical Standards Board (APESB).



and to satisfy themselves that the engagement team and any experts collectively have competence, capabilities and resources to perform the agreed-upon procedures.

#### Q7

##### **Using the Work of an Expert**

*Do you agree with the Working Group's views that ISRS 4400 should be enhanced, as explained above, for the use of experts in AUP engagements? Why or why not?*

The AUASB supports the working group's view that ISRS 4400 should be enhanced for the use of experts in AUP engagements.

The Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* requires the assurance practitioner to satisfy themselves that the engagement team and any experts engaged who are not part of the engagement team to collectively have competence, capabilities and resources to perform the agreed-upon procedures; and to evaluate the adequacy of their work, including their objectivity and technical competence in conducting the procedures, whether the nature, timing and extent of procedures conducted agrees with procedures in the terms of the engagement and whether the factual findings communicated detail adequately the result of the procedures conducted.

#### Q8

##### **Format of the AUP Report**

*What are your views regarding the Working Group's suggestions for improvements to the illustrative AUP report? We would be particularly interested in receiving Illustrative reports that you believe communicate factual findings well*

The AUASB is supportive of improvements to the illustrative auditor's report, however the format of illustrative reports should not be prescribed, but should rather be examples only incorporating the elements identified as required by the standard. If law or regulation prescribes the format of an agreed-upon procedures report, the practitioner would need to understand that each element identified as required by the standard is included in a prescribed report.

For ease of communication, the Australian Standard on Related Services, ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*, includes an example report presenting factual findings in a table format, containing procedures performed, factual findings and errors/exceptions identified. The example report can be found in Appendix 4 of [ASRS 4400](#) on the AUASB website.

#### Q9, Q10 and Q11

##### **AUP Report Restrictions – To Whom the AUP Report Should be Restricted**

*Do you agree that the AUP report can be provided to a party that is not a signatory to the engagement letter as long as the party has a clear understanding of the AUP and the conditions of the engagement? If not, what are your views*

##### **AUP Report Restrictions – Three Possible Approaches to Restricting the AUP Report**

*In your view, which of the three approaches described in paragraph 44 is the most appropriate (and which ones are not appropriate)? Please explain.*

##### **AUP Report Restrictions – Three Possible Approaches to Restricting the AUP Report**

*Are there any other approaches that the Working Group should consider*

The AUASB has clearly 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 *Agreed-Upon Procedures Engagements to Report Factual Findings* by the AUASB. 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. Reliance on that report is then effectively restricted to the intended users identified, even if the report is distributed to other parties.

ASRS 4400 is clear about restricting use of an AUP report in order to bridge an expectation gap that may arise between the information contained in an AUP report and extent of the reliance which the user places on that report. As an AUP report does not provide a conclusion, no assurance can be taken from the report and the factual findings reported need to be considered in combination with other information in order for users to draw their own conclusions with respect to the subject matter.

The relevant requirements of ASRS 4400 are:

- “42. Use of the report shall be restricted 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 since others, unaware of the reasons for the procedures, may misinterpret the results.
43. The report of factual findings for an agreed-upon procedures engagement shall contain: (Ref: Para. A18-A19)
- (n) a statement that use of the report is restricted to those parties identified in the report, who have agreed to the procedures to be performed or were identified in the terms of the engagement;”

It is important to note that classes of users can be anticipated in the engagement letter and report, rather than necessarily identified individually at the time of issuing the report. This is explained in ASRS 4400 paragraph A12, and is appropriate where “the assurance practitioner is satisfied that those users will understand the purpose for which the report of factual findings is intended to be used”. Any amendments to the standard would need to consider the growing use of on-line reports and hence the increased distribution of such reports.

Based on the above, the AUASB is supportive of Option c of paragraph 44 of the discussion paper.

## Q12

### **Recommendations Made in Conjunction with AUP Engagements**

*Do you agree with the Working Group’s view that recommendations should be clearly distinguished from the procedures and factual findings? Why or why not?*

The AUASB does not support the inclusion of recommendations in an AUP report. Providing recommendations based on a report on factual findings is not consistent with the nature of an AUP engagement, and therefore is not an appropriate service to provide. An AUP report is a report on factual findings based on procedures agreed to by the practitioner and the engaging party. The AUASB questions how recommendations fit with a report on factual findings, particularly given the nature of the engagement and its limitations, including the limitations on applying professional judgement. The AUASB believes that including recommendations goes beyond the scope of presenting factual findings and will lead to confusion about the nature of the engagement and the assurance provided by the engagement. Further, if recommendations are sought, the AUASB questions whether an AUP engagement would be fit for the user’s purpose and whether perhaps an alternative form of assurance would be more appropriate.

Any observations or recommendations must be very clearly separated from the report on factual findings.



### Q13

#### Other Issues relating to ISRS 4400

*Are there any other areas in ISRS 4400 that need to be improved to clarify the value and limitations of an AUP engagement? If so, please specify the area(s) and your views as to how it can be improved.*

The AUASB has no further input to provide.

### Q14

#### **Multi-Scope Engagements**

*What are your views as to whether the IAASB needs to address multi-scope engagements, and how should this be done? For example, would non-authoritative guidance be useful in light of the emerging use of these types of engagements?*

#### **Multi-Scope Engagements**

*Do you agree with the Working Group's view that it should address issues within AUP engagements before it addresses multi-scope engagements? Suggestions regarding the nature of guidance on multi-scope engagements you think would be helpful and any examples of multi-scope engagements of which you are aware will be welcome and will help to inform further deliberations.*

With the increase in demand for multi-scope engagements, the AUASB believes guidance is necessary in this area, particularly around reporting. To this end, the AUASB in June 2015 issued a guidance statement, [GS 022 Grant Acquittals and Multi-Scope Engagements](#), to assist auditors in exercising professional judgement in applying the auditing standards to a selection of practical application issues that may arise in this area. The IAASB may find this guidance beneficial in the development of international guidance in this area.

Owing to the age of the extant ISRS 4400, and the increase in demand for such engagements, the AUASB agrees that a revision to ISRS 4400 be prioritised over guidance on multi-scope engagements.

