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Dear Matt

**Discussion Paper: Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards**

CPA Australia welcomes the opportunity to respond to this Discussion Paper. CPA Australia represents the diverse interests of more than 160,000 members in 118 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

CPA Australia considers that the Discussion Paper articulates many of the key issues, which need to be addressed with respect to agreed-upon procedures (AUP) engagements. However, we also suggest that there are some additional matters which should be addressed. In particular, revisions to the standard should identify and articulate circumstances where an AUP is not suitable, the differentiating attributes of an AUP engagement compared to an assurance engagement and management responsibilities in an AUP engagement. Further details on these matters can be found in our response to question 13.

In Australia, many of the issues raised in the discussion paper and the additional matters noted above have been addressed in [ASRS 4400 \*Agreed-Upon Procedures Engagements to Report Factual Findings\*](#), which was issued by the Auditing and Assurance Standards Board (AUASB) in July 2013. This standard has been well received and successfully adopted in Australia, where AUP engagements are relatively common. Although it is still an on-going challenge for practitioners to communicate the limitations of AUP reports to their varied users, the standard has helped to clarify those limitations and identify the circumstances when an AUP engagement is or is not appropriate. Consequently, we consider that ASRS 4400 provides a good example of requirements and application material that address many of the issues identified in the Discussion Paper.

We agree with the Working Group that updating ISRS 4400 is a priority. However we also want to highlight an additional issue, which we believe would help to relieve over-reliance on AUP engagements. We understand from practitioners that in requesting an AUP engagement, entities' priority is typically to obtain a simple, cost effective report on a narrow subject matter. Entities may consider that an audit or reasonable assurance engagement is not necessary and seek an AUP engagement as an appropriate alternative. However, entities often overlook the third option, a review or limited assurance engagement.

Entities may in fact need more than an AUP report as they may not be in a position to draw their own conclusions from the factual findings combined with other information, as is necessary in using an AUP report. In many circumstances, the entity may in fact require some assurance, rather than no assurance, pointing to the need for a review or limited assurance engagement and not an AUP. We are of the opinion that the assurance provided by limited assurance engagements needs to be more clearly defined and the work effort required more clearly articulated in the standards, so that they are

better understood and may be more widely used, when appropriate. Limited assurance engagements may not always be cost effective if they are not sufficiently narrowly scoped and if practitioners are too risk averse to limit the procedures sufficiently. We believe that some practitioners have challenges in interpreting the standards regarding what is sufficient appropriate evidence to support a limited assurance conclusion. Consequently, the work effort can approach that of a reasonable assurance engagement. We suggest that in addressing the issues related to AUP engagements, not only does the AUP standard ASRS 4400 require revision, but consideration needs to be given to better explaining limited assurance engagements, so that they may meet the needs of those entities which require a simple cost effective engagement but also a level of assurance.

We provide our responses to the specific questions raised in the Discussion Paper below.

### **The Role of Professional Judgment and Professional Skepticism in an AUP Engagement**

*Q1. 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?*

Professional judgement is defined in the IAASB as:

*“the application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.”*

In an AUP, “decisions about the courses of action” are not made by the practitioner, as those courses of action, that is the procedures to be conducted, are decided by the engaging party and agreed in the terms of engagement. In contrast, in an audit or assurance engagement the practitioner exercises professional judgement by deciding the courses of action, that is, in determining the procedures necessary to provide sufficient appropriate evidence in order to reach a conclusion. The determination of what amounts to sufficient appropriate evidence is based on the practitioner's risk assessment and materiality determination, both requiring the exercise of professional judgement.

We agree that the exercise of professional competence and due care is critical in an AUP and is the underlying reason that the practitioner is engaged to conduct the procedures. Professional competence and due care is not defined in the IAASB standards but is one of the fundamental ethical principles, which is defined in the *Code of Ethics for Professional Accountants* (Code) issued by IESBA as:

*“to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.”*

Whilst professional accountants are required to comply with the fundamental ethical principles, including professional competence and due care, in all of their work, the Code notes that certain services are routine and mechanical in nature and so require little or no professional judgement.

Nevertheless the Code does require members to exercise professional judgement in applying its conceptual framework, particularly in determining whether appropriate safeguards are available and can be applied when threats to compliance with the fundamental ethical principles are identified. It would also be necessary for the practitioner to exercise professional judgement when accepting the engagement in determining the nature and scope of the engagement, whether the engagement has a rational purpose and agreeing the terms, including the procedures, with the engaging party, as well as determining whether the practitioner has the appropriate level of knowledge and skill. However, once the procedures are agreed and the engagement commences, we consider that professional

judgement should not be exercised in determining or modifying the procedures to be conducted. If there are concerns or observations which the practitioner needs to bring to the attention of the engaging party or another party then this occurs as a separate matter to the AUP engagement and should not impact the findings.

As an AUP engagement does not result in the provision of an opinion or conclusion, it is important that the engagement is conducted in a way which does not mislead users into thinking that a conclusion has been reached. The Australian standard ASRS 4400 allows for professional judgement to be used when accepting the engagement only, but not in conducting the engagement.

*ASRS 4400, paragraph 25: "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."*

*ASRS 4400, Appendix 1: "Professional judgement may be exercised in assisting the engaging party to identify procedures when agreeing the terms of the engagement, but only professional competence is exercised when conducting the agreed-upon procedures."*

We see this distinction between professional judgement, as used in ASRS 4400, and professional competence and due care of importance, in differentiating an AUP from an assurance engagement. We are of the opinion that a practitioner performing an AUP should not be making judgements about the sufficiency or appropriateness of the findings, as that is the responsibility of the intended users when they draw their conclusions.

*Q2. Should revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?*

We suggest that professional judgement is addressed in revised ISRS 4400 as this will help to provide clarity around the difference between an AUP and an assurance engagement. ISRS 4400 could deal with professional judgement in a similar way to the Australian Standard ASRS 4400, Paragraph 25, as quoted in response to question 1 above.

ASRS 4400 remains silent on the use of professional judgement in accepting the engagement, thereby not preventing the exercise of professional judgement during the acceptance procedures to enable the practitioner to assist the engaging party in scoping an AUP engagement which has a rational purpose and is likely to meet the needs of the users, as well as in making an assessment of whether the practitioner has the necessary capabilities and competence and will be able to meet the agreed level of independence.

We do not foresee any unintended consequences if professional judgement is excluded from the conduct of the engagement. This approach has been implemented successfully in Australia since July 2013 when ASRS 4400 was issued. However, we do see unintended consequences of allowing professional judgement to be exercised during the course of an AUP, as the difference between an AUP and an assurance engagement becomes blurred and the point at which professional judgement may no longer be exercised becomes unclear.

### **The Independence of the Professional Accountant**

*Q3. What are your views regarding practitioner independence for AUP engagements? Would your views change if the AUP report is restricted to specific users?*

We consider that there is significant value in the practitioner being independent when conducting an AUP engagement, but if they are not independent, it is important that users are aware of the practitioner's level of independence. In Australia, ASRS 4400 requires the practitioner to apply ethical requirements, including independence, equivalent to those applicable to Other Assurance Engagements or to agree modified independence requirements, including the level of independence. The independence applied should be required to be reflected in the terms of the engagement and the AUP report, including a description of the level of independence, where modified independence has been agreed.

We note that the Code permits the independence requirements to be modified, if the intended users of the assurance practitioner's report are knowledgeable as to the purpose, subject matter information and limitations of the report and explicitly agree to the application of modified independence requirements. In these circumstances, the report must include a restriction on use and distribution to the intended users only.

If modified independence requirements are adopted in the terms of the engagement, but the intended users include a class of users who are not party to the terms of the engagement, the practitioner should be required to make that class of users aware of the modified independence requirements. A class of users may be made aware of the modified independence requirements by communication through an industry body or by reference to the modified independence in the report of factual findings. In order to determine the level of modified independence, the independence of the practitioner and the engagement team will need to be assessed.

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

*Q4. 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?*

We consider that it would be beneficial for the standard to specify terms which should not be used in connection with an AUP engagement, in order to minimise misunderstandings about the nature of those engagements. The terms used most commonly in relation to assurance engagements would be important to restrict in relation to an AUP engagement. In ASRS 4400, this is addressed in paragraph 47, which states that a report of factual findings shall not contain "*inappropriate use of the terms "assurance", "audit", "review", "opinion" or "conclusion"*" or "*any statement that could reasonably mistaken for a conclusion*". We agree that further guidance could be usefully provided in the revised ISRS 4400 on how to word factual findings so that they are not unclear or misleading.

We consider that unclear or misleading terminology should be prohibited in an AUP engagement regardless of whether the AUP report is restricted.

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

*Q5. 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?*

We support the extension of the scope of ISRS 4400 to non-financial information, as it currently provides requirements only for AUP engagements on financial information and states that it "may provide useful guidance for engagements regarding non-financial information". We do not see the need to limit the scope of the standard to financial information only.

As with an assurance engagement, we consider that it is essential that the practitioner has the necessary competence to undertake the AUP engagement. We agree that the competencies must relate to the nature of the subject matter of the engagement, whether financial or non-financial, and the nature of the procedures to be conducted on the relevant information.

The revised standard should require the practitioner to accept the engagement only if those persons who are to perform the engagement, including the engagement team and any experts engaged who are not part of the engagement team, collectively have the capabilities, competence and resources to perform the procedures.

*Q6. Are there any other matters that should be considered if the scope is clarified to include non-financial information?*

The Australian standard ASRS 4400 is not limited to financial information and we are not aware of any difficulties being encountered in applying that standard to non-financial information, since it was issued in 2013. As the suite of IAASB standards already covers assurance on non-historical financial

information, under ISAE 3000, we identify no need for the IAASB to be constrained to covering only financial information for AUPs.

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

*Q7. 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?*

We agree that ISRS 4400 should address the use of the work of experts and we agree with the approach proposed. We note that this approach is consistent with the Australian requirements in ASRS 4400, specifically paragraph 35.

ASRS 4400 addresses a broader range of "others", covering use of the work of another assurance practitioner, internal auditor or an expert. We recommend that ISRS 4400 should also address this broader group in addition to experts. The standard should make it clear that in providing their expertise, any others participating in the engagement are required to apply professional competence and due care in conducting the procedures, but not professional judgement that may lead to the modification of the procedures or suggest that a conclusion or opinion has been reached.

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

*Q8. 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.*

We agree that the factual findings need to be presented in AUP reports in a manner which is most useful to users. Illustrative reports that show the procedures and related findings in a tabular format would be one useful way to present the information in the AUP report. This format was used in the example report in ASRS 4400, Appendix 4. This example presents the factual findings in a simple table with a row for each procedure and columns for: procedures performed (which would reflect the terms of engagement), factual findings and errors or exceptions identified. The example report also provides a table for procedures which could not be performed with columns for: procedure unable to be performed and reasons procedure was unable to be performed.

Nevertheless, we suggest that there needs to be flexibility in the manner in which the findings may be presented to allow for differences in the nature and complexity of each engagement.

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

*Q9. 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?*

We support the view that an AUP report can be provided to third parties who are not a party to the engagement agreement, if they have a clear understanding of the AUP and the conditions of the engagement. Those users or class of users should be identified in the terms of engagement and in the AUP report, as well as the manner by which they have been made aware of the purpose, subject matter information and limitations of the report.

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

*Q10. In your view, which of the three approaches described in paragraph 44 is the most appropriate (and which ones are not appropriate)? Please explain.*

We agree that a report of factual findings in an AUP engagement may be misinterpreted by readers who are unaware of the context of the AUP. This is because reports of factual findings have limited use and must be combined with other information by users in order for the users to draw a conclusion about the subject matter. The report of factual findings can easily be misinterpreted as providing

assurance, consequently we consider that a restriction is necessary to mitigate that risk of misinterpretation. As it can be difficult to restrict the distribution of an AUP report in practice, we consider that its use should be restricted, thus effectively meaning that reliance cannot be placed on the report by other parties who are not included as users in the report.

With respect to each approach presented in the discussion paper, our views are:

1. Approach 1: We do not support this approach as it applies restrictions on both distribution and use of the AUP report. We consider that it is difficult to restrict distribution in practice and such a restriction may conflict with regulatory requirements to post a report on-line or distribute by some other means.
2. Approach 2: We do not support this approach as we consider the restrictions are needed to limit misinterpretation of the AUP report.
3. Approach 3: We support this approach as it restricts the use of the AUP report to users identified in the report, as agreed in the terms of engagement. It does not restrict the distribution of the report, which may be required to be made available publicly (for example posted on-line or lodged with a regulator) by law or regulation in the relevant jurisdiction.

In Australia, when the current standard ASRS 4400 was first issued, a restriction on both distribution and use was required in the engagement letter and AUP report. It was found to be impractical due to the existing requirements to distribute the report, therefore this requirement was amended to restrict only use of the report to "those parties that have either agreed to the procedures to be performed or have specifically included as intended users in the engagement letter since others, unaware of the reasons for the procedures, may misinterpret the results." The intended users identified need not be a party to the engagement but must be identified in the terms of engagement and the AUP report.

*Q11. Are there any other approaches that the Working Group should consider?*

We have not identified any other approaches.

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

*Q12. 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?*

We do not support the inclusion of recommendations in an AUP Report. This is not consistent with the purpose of an AUP engagement, which is to conduct the agreed procedures and report factual findings. Reporting of recommendations suggests the practitioner has gone beyond the scope of an AUP and conducted procedures which are inconsistent with the nature of the engagement. If ISRS 4400 provides for reporting of recommendations, it will serve to exacerbate the existing misunderstanding of AUP engagements rather than serve to provide clarification of what these engagements provide and do not provide.

An AUP does not provide a sound basis for making recommendations, as it does not require an understanding of the underlying subject matter and other engagement circumstances to enable a properly planned assessment of the subject matter. An assurance or consulting engagement should be conducted if recommendations are sought by the engaging party. Recommendations arising from an AUP engagement may be ad hoc, rather than balanced or comprehensive and consequently may be misleading.

### **Other Issues relating to ISRS 4400**

*Q13. 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.*

There are several areas that could be improved in ISRS 4400, including those relating to engagement acceptance, differentiation of AUPs from assurance engagements and management responsibilities in an AUP engagement.

We recommend that ISRS 4400 identifies the circumstances under which an AUP engagement should not be accepted. These circumstances should indicate when an AUP engagement is not suitable for meeting the needs of users. We recommend that ISRS 4400 should require that if these circumstances are present, the practitioner should decline the engagement as an AUP engagement. The Australian standard ASRS 4400 identifies such circumstances in paragraph 21, including in summary:

- Provision of only factual findings is unlikely to meet the needs of users;
- Intended users are likely to construe the AUP report as providing assurance;
- Use of the report cannot be restricted to identified users;
- All of the elements of an assurance engagement are met;
- The engagement has no rational purpose;
- The engagement will require the practitioner to: determine the sufficiency of procedures, perform a risk assessment, evaluate the findings to determine the sufficiency and appropriateness of the evidence; or
- The engaging party requires a conclusion or opinion to be reached.

We also consider that ASRS 4400 needs to clearly state the differentiating factors between an assurance engagement and an AUP. This would need to include that in an AUP:

- planning is limited to the effective performance of the procedures agreed;
- no risk assessment is performed;
- materiality is not applied to design procedures or evaluation findings;
- findings are not evaluated to assess whether sufficient appropriate evidence has been obtained; and
- a conclusion is not reached or expressed.

We further recommend that ISRS 4400 addresses the responsibilities of management in an AUP engagement, which should be acknowledged as a precondition of the practitioner's engagement acceptance. This is currently addressed in ASRS 4400 paragraph 22, including management's responsibility for:

- the adequacy of the procedures agreed;
- whether the factual findings combined with other available information will provide an appropriate basis for users to draw conclusions on the subject matter; and
- providing access to information and persons within the entity necessary to perform the procedures.

## **Multi-Scope Engagements**

*Q14. 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?*

Whilst non-authoritative guidance would be helpful for practitioners, there are some requirements which would be useful in this regard and may be able to be incorporated into existing standards. We consider that the *International Framework for Assurance Engagements* (Framework) may be able to usefully address multi-scope engagements. The Framework would need to address how practitioners' reports can include different engagements with different levels of assurance (limited, reasonable or no assurance) and/or different subject matters, whilst clearly separating and communicating the outcomes from the different parts of the engagement or engagements.

Multi-scope engagements should not be addressed in conjunction with AUP engagements and should be a distinct project.

*Q15. 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.*

We agree that AUP engagements should be addressed first through revising ISRS 4400, before multi-scope engagements are addressed.

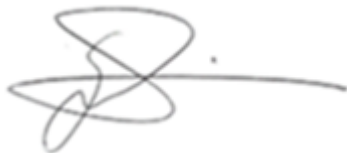
We consider that there is a need for both amendments to the Framework to address how engagements can be combined, as noted above, and guidance to assist practitioners in implementing multi-scope engagements. However, such guidance may be more appropriately developed in national jurisdictions rather than at the international level, as the nature of the engagements is largely driven by national, state or local regulatory requirements or industry practice. In Australia, Guidance Statement [GS 022 Grant Acquittals and Multi-Scope Engagements](#), issued in June 2015, provides guidance on challenges arising from regulatory and industry requirements for multi-scope engagements and how these challenges may be addressed. Many of the examples of multi-scope engagements are specific to the Australian regulatory environment.

Multi-scope engagements are very common in Australia and are required in a number of different industries by regulators. Examples of the multi-scope engagements can be found in the Guidance Statements issued by the AUASB, with example reports included in the appendices and/or published on the regulator's website. These multi-scope engagements include:

- Registered Superannuation entities: [GS 002 Audit Implications of Prudential Reporting Requirements for Registered Superannuation Entities & registrable superannuation entity auditor's report approved forms \(PDF\)](#) issued by Australian Prudential Regulation Authority.
- Financial Services Licences: [GS 003 Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001 & Auditor's Report for AFS Licensee \(FS71\)](#) issued by Australian Securities and Investment Commission (ASIC).
- Self-Managed Superannuation Funds: [GS 009 Auditing Self-Managed Superannuation Funds & self-managed superannuation fund independent auditor's report approved form](#) issued by the Australian Taxation Office
- [GS 012 Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions](#)
- [GS 017 Audit Implications for Prudential Reporting Requirements of a Life Company](#)
- [GS 021 Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Schemes & Audit Determination Handbook and audit templates](#) issued by the Clean Energy Regulator.

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

Yours sincerely



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