



Agreed-Upon Procedures Engagements (ISRS 4400)

Eric Turner, IAASB Member and Task Force Chair

CAG Meeting

September 11, 2019

Agenda Item N



**International Auditing
and Assurance
Standards Board**

Task Force Members and Staff Support

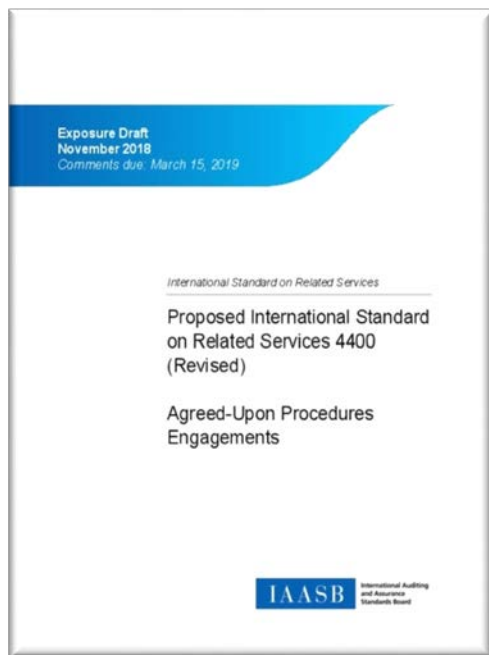
- **Task Force**

- Eric Turner – IAASB Member and Task Force Chair
- Isabelle Tracq-Sengeissen – IAASB Member
- Roger Simnett – IAASB Member
- Vivienne Bauer – IAASB Technical Advisor

- **Staff**

- Phil Minnaar – IAASB Staff
- Chi Ho Ng – Canadian AASB Staff

Background



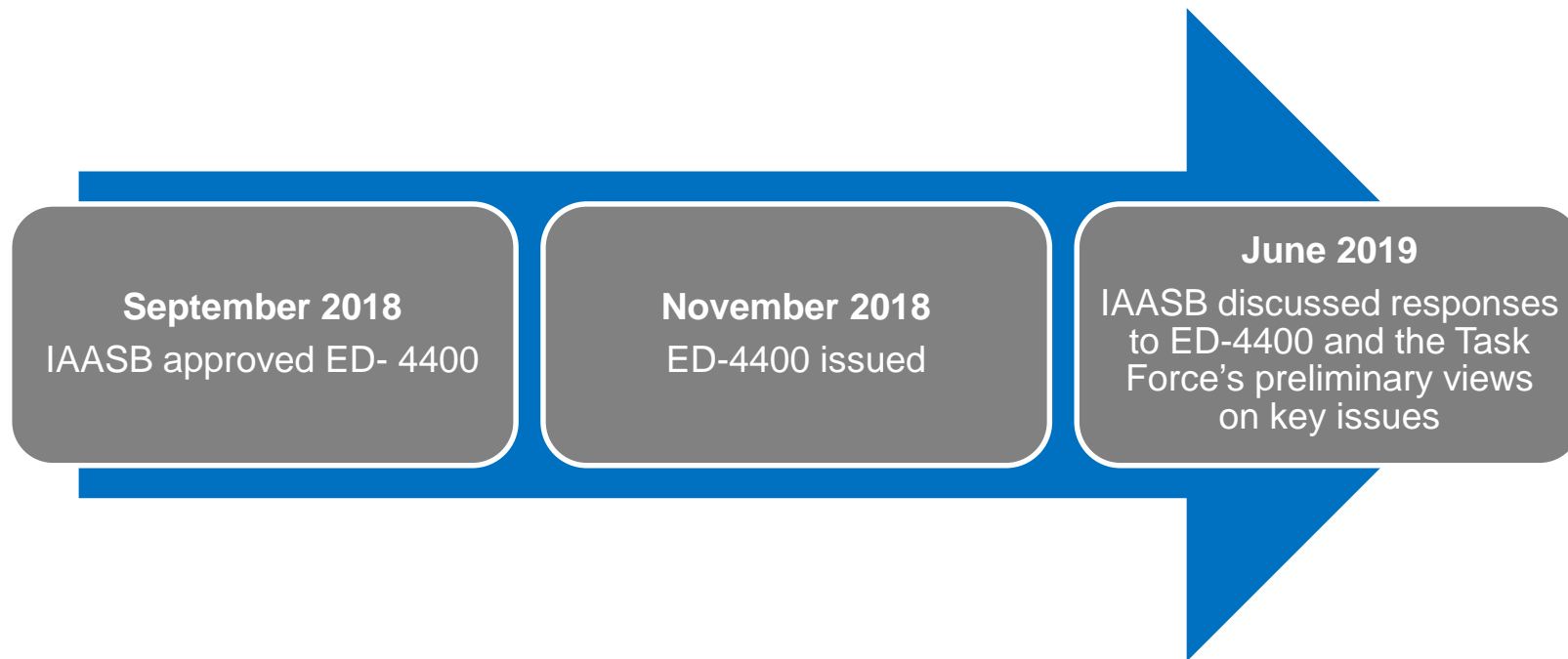
Extant ISRS 4400 was developed over 20 years ago and has not kept pace with the significant changes that have occurred in the business environment driving the demand for AUP engagements on both financial and non-financial subject matters

In November 2016, a Discussion Paper was issued to explore the demand for, and issues relating to, AUP engagements

In September 2017, the IAASB approved a project proposal to revise extant ISRS 4400 to address issues relating to AUP engagements

In November 2018, the IAASB issued Exposure Draft of ISRS 4400 (Revised), *Agreed-Upon Procedures Engagements* (ED-4400)

Developments Since the Previous CAG Discussion



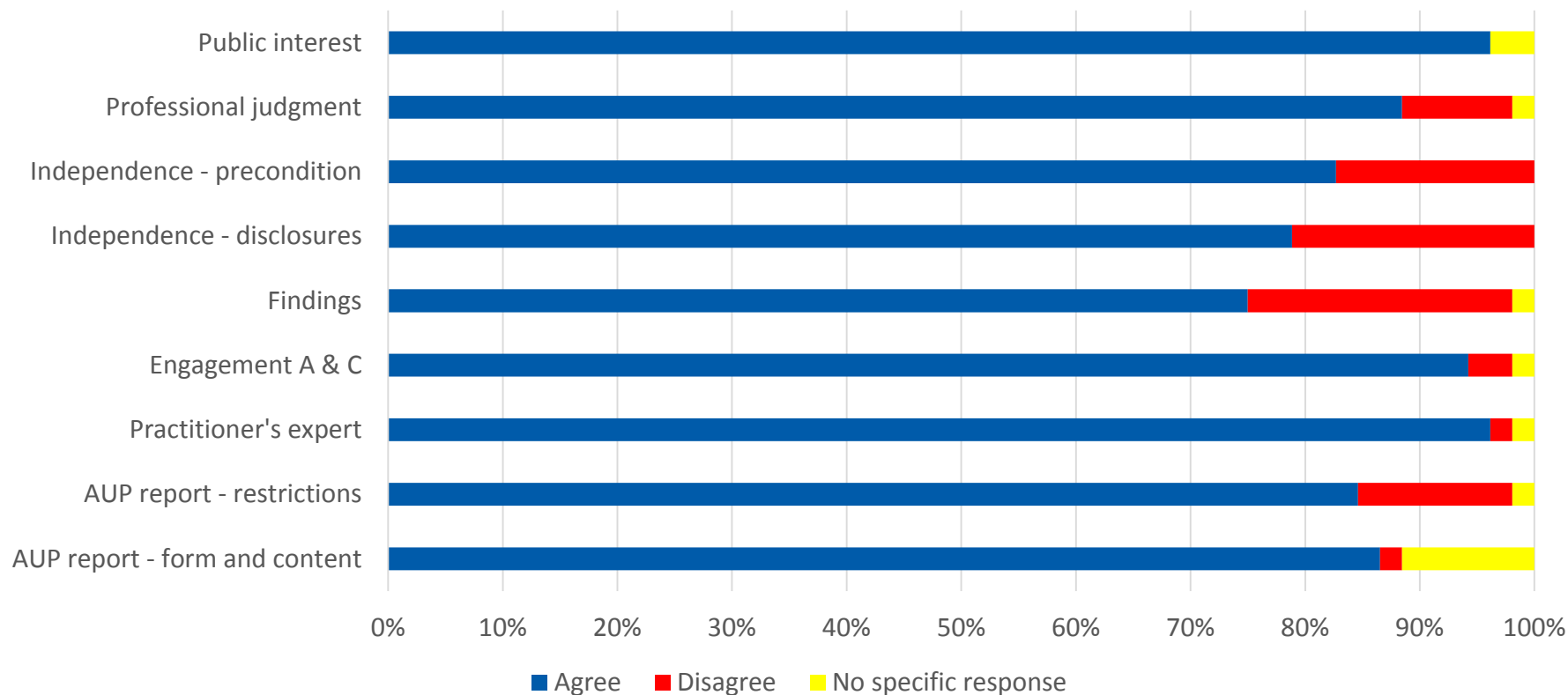
Objectives of CAG Discussions

- Provide a summary of the feedback received on ED-4400
- Obtain CAG members' views on 2 key issues
 - Professional Judgment
 - Practitioner's Independence

Responses



Overall Summary of Responses



Professional Judgment

Views from Respondents to ED-4400

A significant majority of respondents agreed that professional judgment is not suspended in an AUP engagement, particularly at the engagement acceptance stage. However, many respondents indicated that professional judgment is not exercised when performing the procedures.

Views expressed at the IAASB June 2019 meeting

- General agreement that professional judgment is not exercised when performing procedures. However, it should be clear that the practitioner's training, knowledge and experience are applied throughout the engagement.
- Caution against introducing extensive introductory paragraphs to explain the differences between AUP engagements and assurance engagements as they may create confusion for practitioners who do not ordinarily perform assurance engagements.

Professional Judgment – Task Force's Proposed Disposition

- Require the practitioner to apply professional judgment in an AUP engagement except in the performance of the procedures as agreed upon in the terms of the engagement; and
 - Develop application material to clearly explain that:
 - An AUP engagement involves the performance of the specific procedures that have been agreed upon with the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. As there are no alternative courses of action in performing the procedures, the performance of the procedures requires no professional judgment.
 - Notwithstanding that professional judgment is not exercised when performing the procedures, the practitioner applies relevant training, knowledge and experience throughout the AUP engagement.
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Professional Judgment – Question

CAG Representatives are asked for their views on:

1. Whether Representatives agree with the premise that professional judgment is not applied in the performance of the procedures as agreed upon in the terms of the engagement. However, the practitioner applies relevant training, knowledge and experience throughout the AUP engagement.
2. Whether the material developed by the Task Force to explain the differences between AUP engagements and assurance engagements should be retained and, if so, the appropriate location of the content.

Independence (Precondition)

Views from Respondents to ED-4400

A significant majority of respondents agreed that there should not be a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective).

Views expressed at the IAASB June 2019 meeting

- General agreement with not including a precondition for the practitioner to be independent and not requiring the practitioner to determine independence.
- However, a few members suggested that independence should be considered during the engagement acceptance stage.

Independence (Precondition) – Task Force's Proposed Disposition

Consistent with the Board's views, the Task Force retained the approach of not including a precondition for the practitioner to be independent in accepting an AUP engagement. On the additional considerations of independence (if the practitioner is not otherwise required to be independent), the Task Force identified 3 alternatives:

- Alternative 1: Requirement for the practitioner to consider whether independence is appropriate based on the circumstances of the engagement.
- Alternative 2: Application material that the practitioner may wish to discuss the importance of independence with the engaging party and to consider whether independence may be appropriate in the circumstances of the engagement.
- Alternative 3: Requirement for the practitioner to inquire of the engaging party whether the practitioner should be independent and application material for the practitioner to discuss with the engaging party whether independence may be appropriate in the circumstances of the engagement.

On balance, the Task Force supported Alternative 3 because a requirement will result in a more rigorous and consistent consideration of independence matters.

Independence (Precondition)

CAG Representatives are asked for their views on:

- Whether Representatives agree with Alternative 3, which consists of:
 - Requirement for the practitioner to inquire of the engaging party whether the practitioner should be independent; and
 - Application material for the practitioner to discuss with the engaging party whether independence may be appropriate in the circumstances of the engagement.

Independence (Disclosure)

Views from Respondents to ED-4400

A majority of respondents agreed with the enhanced transparency regarding the practitioner's independence. However, many respondents disagreed with the requirement to state that the practitioner is not independent when there is no requirement for the practitioner to be independent. These respondents suggested that, as long the practitioner is not required to be independent, a simple statement that the practitioner is not required to be independent is sufficient.

Views expressed at the IAASB June 2019 meeting

- While Board views were mixed, the balance of views supported 'limited' disclosures to explain that the practitioner:
 - Is not required to be independent; and
 - Has not made an evaluation of independence.
- Support for requiring this 'limited' disclosure irrespective of whether the practitioner knows or does not know whether they are independent.

Independence (Disclosure) – Task Force’s Proposed Disposition

		Is practitioner required to be independent?	
		Yes	No
Is practitioner independent?	Unknown (i.e., not determined)	N/A: Practitioner is not able to report until the practitioner has determined independence.	<p>AUP Report under ED-4400: Statement that the practitioner is not required to be independent.</p> <p>AUP Report under the revised disclosure approach: Statement that the practitioner is not required to be independent and accordingly, makes no assertion about independence.</p>
	Yes	<p>AUP Report under ED-4400: Statement that the practitioner is independent and the independence criteria against which the practitioner determined independence.</p> <p>AUP Report under the revised disclosure approach: No Change from ED-4400.</p>	<p>AUP Report under ED-4400: Statement that the practitioner is independent and the basis therefor.</p> <p>AUP Report under the revised disclosure approach: Statement that the practitioner is not required to be independent and accordingly, makes no assertion about independence.</p>
	No	N/A: Practitioner is not able to report (or perform the engagement) because the practitioner is not independent.	<p>AUP Report under ED-4400: Statement that the practitioner is not required to be independent and is not independent.</p> <p>AUP Report under the revised disclosure approach: Statement that the practitioner is not required to be independent and accordingly, makes no assertion about independence.</p>

Independence (Disclosure) – Task Force’s Proposed Disposition

Other proposed changes include:

- [As discussed in the Independence (Precondition) section] Requiring the practitioner to inquire with the engaging party as to whether independence should be a condition of the engagement (if the practitioner is not otherwise required to be independent);
- Requiring the practitioner to only accept the AUP engagement if the practitioner has no reason to believe that the independence requirements will not be satisfied (if the practitioner is required to be independent); and
- Requiring specific disclosures in the AUP report on the objectivity of the practitioner.

Independence (Disclosure) – Task Force's Proposed Disposition

The Task Force is of the view that the revised independence requirements enhance the standard.

For example, if the practitioner is required to be independent, the AUP report would include a statement that the practitioner is independent and the independence criteria against which the practitioner determined independence.

On the other hand, if:

- The practitioner is not required by relevant ethical requirements, laws or regulations or other reasons to be independent; and
- The engaging party does not require the practitioner to be independent after the practitioner has discussed this matter with the engaging party,

then independence is evidently not an important factor for the particular AUP engagement. The disclosures in the AUP report reflect this fact.

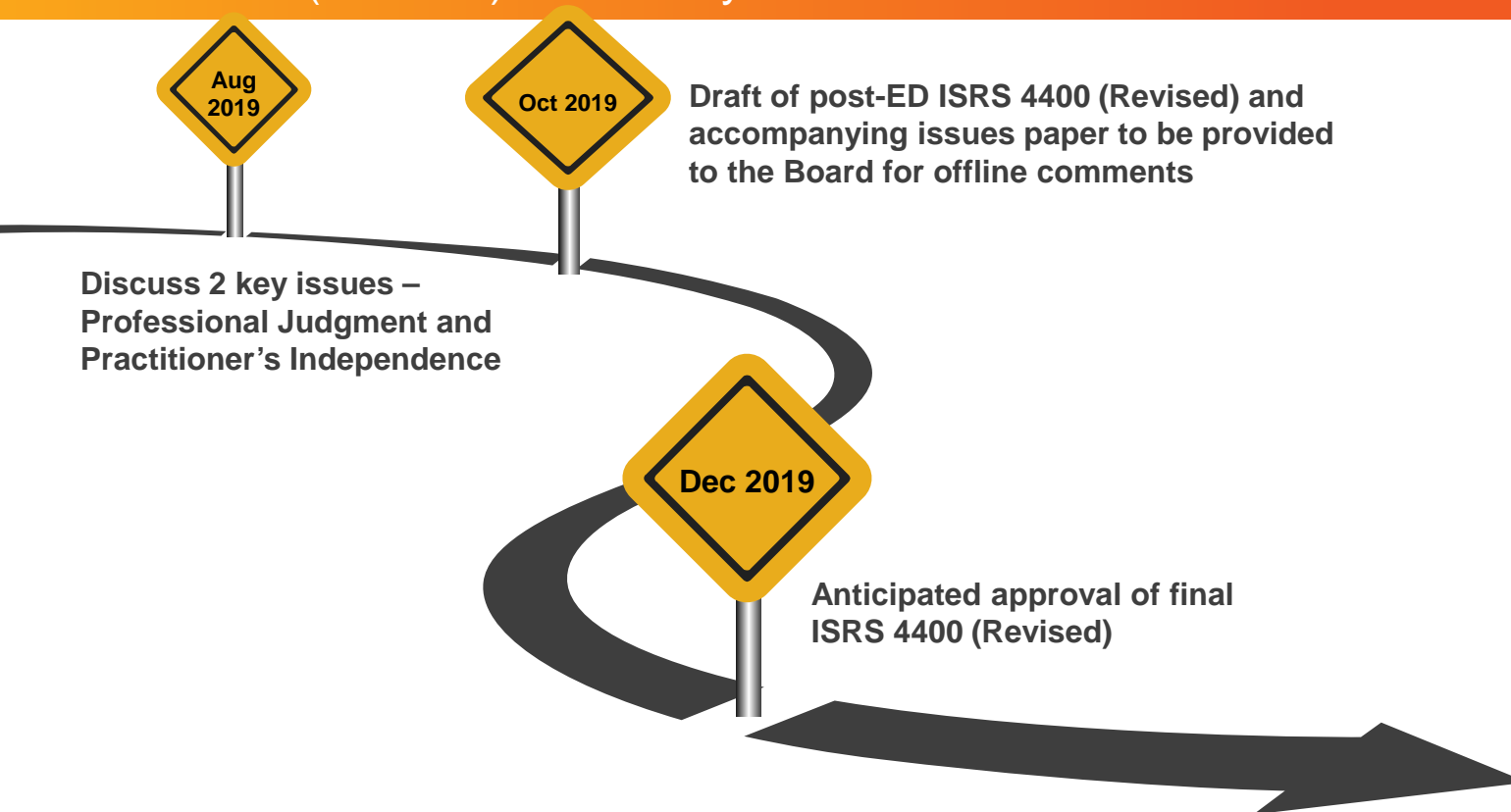
Accordingly, the revised independence disclosure requirement, together with the enhanced description of the practitioner's objectivity, provide appropriate transparency regarding the practitioner's objectivity and independence and consistency of reporting.

Independence – Disclosure of Independence (cont'd)

CAG Representatives are asked for their views on:

- Whether Representatives agree with the Task Force's proposals on the disclosures (in relation to independence) in the AUP report.

ISRS 4400 (Revised) – The Way Forward





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