

Meeting: IAASB Consultative Advisory Group (CAG)

Meeting Location: New York, United States of America

Meeting Dates: March 10–11, 2020

Agenda Item

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ISRS 4400 (Revised), *Agreed-Upon Procedures* – Report Back

Objective of Agenda Item

1. The objective of this agenda item is to report back on the CAG representatives' comments on Agreed-Upon Procedures (AUP) made at the September 2019 meeting.

Project Status – What Have We Done Since We Last Met?

2. In December 2019, the IAASB approved International Standard on Related Services (ISRS) 4400 (Revised), *Agreed Upon Procedures Engagements*. The revised ISRS will be effective for agreed-upon procedures engagements for which the terms of engagement are agreed on or after January 1, 2022. Once the PIOB's confirmation that due process was followed is received, the Board will formally release the standard.
3. **Appendix A** to this paper provides a history of previous discussions with the IAASB CAG and IAASB on this topic, including links to the relevant IAASB CAG documentation.

Feedback - What Did We Hear Last Time We Met?

4. Extracts from the draft September 2019 IAASB CAG meeting minutes, as well as an indication of how the IAASB has responded to the Representatives' comments, are included in the table below.

Representatives' Comments	IAASB Response
PROFESSIONAL JUDGMENT	
Mr. Sobel agreed that there may be circumstances where limited professional judgment is exercised in an AUP engagement. However, he expressed concern with the notion that the practitioner exercises no professional judgment during the performance of the procedures, as this may imply that professional judgment can be switched on and off. Mr. Hansen agreed with Mr. Sobel and expressed the same concern.	<p>The IAASB recognized that professional judgment is exercised throughout an AUP engagement but may be limited when performing the agreed-upon procedures. The IAASB made the following changes to better reflect how professional judgment is exercised in an AUP engagement:</p> <ul style="list-style-type: none"> • Amended paragraph 18 to clarify that professional judgment is exercised throughout the engagement, including in accepting, conducting and reporting on the AUP engagement.

	<ul style="list-style-type: none"> Amended paragraph A23 to explain why, in conducting the engagement, the need for the practitioner to exercise professional judgment when performing the agreed-upon procedures is limited.
Messrs. Pavas and Cela supported the introduction and requirement for the practitioner to exercise professional judgment, noting that it adds value to the practitioner's report and the intended users of an AUP engagement.	Support noted.
Recognizing the challenges in articulating the nature and extent of professional judgment in an AUP engagement, Ms. McGeachy supported the inclusion of specific examples in the application material to describe areas where professional judgment is typically exercised in an AUP engagement.	The IAASB added new examples and subheadings to paragraph A22 to better demonstrate how professional judgment may be exercised when accepting, conducting and reporting on the AUP engagement.
INDEPENDENCE	
Unless required by law, regulation or otherwise, Mmes. Zietsman and Soulier and Mr. Thompson highlighted the practical difficulties associated with requiring independence, or proposing disclosures in relation to independence, when there is no framework under the IESBA Code for the practitioner to determine independence. Ms. Soulier further explained that independence is required for AUP engagements under the AICPA standards because the AICPA considers AUP engagements to be an attestation engagement, and accordingly, the relevant attestation framework is applied in determining independence.	The IAASB agreed that, in the absence of independence requirements for AUP engagements, there are no criteria against which the practitioner can determine whether the practitioner is, or is not, independent for the purpose of the AUP engagement. Accordingly, it is not possible for the practitioner to determine independence in such circumstances. For the same reason, disclosure in the AUP report that the practitioner is, or is not independent, may be confusing to users.
A significant majority of the Representatives agreed with not requiring independence to be a precondition for an AUP engagement. In contrast, based on the general presumption that professional accountants are independent, Mr. Dalkin expressed a view that independence should be precondition during AUP engagements.	<p>The IAASB recognized the support expressed by most Representatives (and respondents to ED-4400) for not including a precondition for the practitioner to be independent and not requiring the practitioner to determine independence. The IAASB reaffirmed this position in ISRS 4400 (Revised).</p> <p>The IAASB agreed that there may be circumstances when the practitioner performing the AUP engagement is also the</p>

	<p>auditor of the financial statements. In such circumstances, users of the AUP report may assume that the practitioner is independent for the purpose of the AUP engagement. Therefore, the practitioner may agree with the engaging party that the practitioner's compliance with the independence requirements applicable to audits of financial statements is appropriate for the AUP engagement. Further, the practitioner may have other reasons for believing that compliance with certain identified independence requirements may be appropriate for the purpose of the AUP engagement.</p> <p>Accordingly, the IAASB developed application material in paragraphs A37 and A38 to assist practitioners in complying with the engagement acceptance and continuance requirements in paragraph 22 and agreeing the terms of engagement requirements in paragraph 24. The application material explains that the practitioner's knowledge of certain matters may indicate that a discussion with the engaging party as to whether compliance with certain identified independence requirements is appropriate, for the purpose of the AUP engagement, even when the practitioner is not required by relevant ethical requirements, law or regulation, or other reasons to comply with independence requirements. If so, the practitioner may agree with the engaging party, in the terms of engagement, to comply with the relevant independence requirements for the purpose of the AUP engagement.</p> <p>The corresponding reporting requirements in paragraph 30(l) depend on whether the practitioner is:</p> <ul style="list-style-type: none"> • Required to comply with independence requirements (regardless of whether the requirements are "external" or agreed to in the terms of engagement); or • Not required to comply with independence requirements.
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	<p>The reporting requirements are illustrated in Appendix 2 (including Illustration 2 of Appendix 2, which addresses a situation where the practitioner is the auditor of the financial statements of the engaging party (who is the responsible party)).</p>
<p>Notwithstanding broad agreement not to require independence as a precondition for AUP engagements</p> <ul style="list-style-type: none"> Messrs. Sobel, Pavas, Hirai, Thompson and Cela agreed that based on the particular circumstances of the engagement, it may be appropriate for the practitioner to be independent. The Representatives suggested that such circumstances or factors are addressed in the application material. Messrs. Dalkin, Thompson, Ruthman, Hansen and Ms. Meng encouraged the importance of transparency in relation to disclosures surrounding the independence status of the practitioner. 	<p>The IAASB agreed with the views expressed and has developed:</p> <ul style="list-style-type: none"> Paragraphs A37 and A38 to assist practitioners in complying with the engagement acceptance and continuance requirements and agreeing the terms of engagement requirements; and Paragraph 30(I) to require disclosures depending on whether the practitioner is (or is not) required to comply with independence requirements. <p>See comments in the box above for details.</p>
PIOB REMARKS	
<p>Ms. Pettersson noted the PIOB's concern with the proposed requirement on professional judgment, noting that the proposed exclusion of professional judgment in certain areas of an AUP engagement will cause confusion to the general public and the users of an AUP engagement.</p>	<p>The IAASB agreed that professional judgment is exercised throughout an AUP engagement and has made changes to better reflect how professional judgment is exercised in an AUP engagement. Please see the IAASB's response in the professional judgment section.</p>
<p>Ms. Pettersson further acknowledged the absence of a recognized framework under the IESBA Code to determine independence for AUP engagements. However, as this is a matter of public interest, and taking into account that there is a general presumption of independence by the public, the PIOB's suggestion is to require appropriate disclosures in the practitioner's report, which will promote transparency in relation to the independence status of the practitioner.</p>	<p>The IAASB agreed with the need for transparency and has developed paragraph 30(I) to require disclosures depending on whether the practitioner is (or is not) required to comply with independence requirements. Please see IAASB responses in the Independence section.</p>

Appendix 1

Project Details and History

Project: ISRS 4400 (Revised)

Link to IAASB Project Page: [Agreed-Upon Procedures](#)

Task Force Members

The IAASB's ISRS 4400 (Revised) Task Force comprises of:

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

Summary

	IAASB CAG Meeting	IAASB Meeting
Information Gathering	September 2015 March 2016	March 2015 June 2015 March 2016 June 2016 September 2016
Project Proposal	September 2017	September 2017
Developing Exposure Draft	September 2018	March 2018 August 2018
Approval of Exposure Draft		September 2018
Discussion of Feedback from Exposure Draft and Development of Final ISRS	March 2019 September 2019	June 2019 August 2019 (teleconference) December 2019

IAASB CAG Discussions: Detailed References

Information Gathering	<u>September 2015</u> See IAASB CAG meeting material (Agenda Item C) and meeting minutes (Agenda Item A):
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	<p>https://www.iaasb.org/cag/meetings/new-york-usa-0</p> <p><u>March 2016</u></p> <p>See IAASB CAG meeting material (Agenda Item K) and meeting minutes (Agenda Item A)</p> <p>https://www.iaasb.org/cag/meetings/paris-france</p>
Project Proposal	<p><u>September 2017</u></p> <p>See IAASB CAG meeting material (Agenda Item F) and meeting minutes (Agenda Item A)</p> <p>https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-madrid-spain</p>
Developing Exposure Draft	<p><u>September 2018</u></p> <p>See the IAASB CAG meeting material (Agenda Item H) and meeting minutes (Agenda Item A)</p> <p>http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-0</p>
Discussion of Feedback from Exposure Draft and Development of Final ISRS	<p><u>March 2019</u></p> <p>See the IAASB CAG meeting material (Agenda Item J) and meeting minutes (Agenda Item A)</p> <p>https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-1</p> <p><u>September 2019</u></p> <p>See the IAASB CAG meeting material (Agenda Item N) and meeting minutes (Agenda Item A)</p> <p>https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-2</p>