

Agenda Item 5-B UPDATED

IAASB PROJECT PROPOSAL — REVISION OF ISRS 4400, *ENGAGEMENTS TO PERFORM AGREED-UPON PROCEDURES REGARDING FINANCIAL INFORMATION*

I. Subject

1. This project deals with the revision of ISRS 4400¹ to address issues identified through outreach with stakeholders and in the responses to the Discussion Paper, *Exploring the Demand for Agreed-Up on Procedures Engagements and Other Services, and the Implications for the IAASB’s International Standards* (“Discussion Paper”).²

II. Background, How the Project Serves the Public Interest, Project Objectives and Scope

Background

2. Agreed-Upon Procedures (AUP) engagements are widely used in many jurisdictions. 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 information, such as.

- The growth in regulations calling for increased accountability on how funds and grants are used.
- Changes in regulations such as the increase in audit exemptions.

While AUP engagements are performed by firms of all sizes, AUP engagements are particularly relevant in the Small- and Medium-sized Practices (SMP) and Small- and Medium-sized Entities (SME) environment.³

3. In response to calls from stakeholders who indicated that investors, banks and other providers of capital often request an entity to have an AUP engagement performed by a practitioner, a project to revise this standard was included in the IAASB’s 2012–2014 *Strategy and Work Program*.⁴ In addition to enhancing the standard to address issues that had been identified, it was also intended that the revised standard would be redrafted using the clarity drafting conventions. However, the project was delayed because of the acceleration of work on the Auditor Reporting project.
4. In 2015, the IAASB established a Working Group (WG) to explore issues related to AUPs. The WG consists of IAASB members and technical advisors, a representative from national auditing standard setters (NSSs) and a member of an advisory group representing SMPs.
5. Since its inception in 2015, the AUP Working Group has conducted outreach with:

¹ International Standards on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

² <https://www.ifac.org/system/files/publications/files/Agreed-Upon-Procedures-Working-Group-Discussion-Paper-Nov-2016.pdf>

³ The relevance of AUP engagements in the SMP and SME environment was highlighted at the Small and Medium Practices working conference held in January 2017. High-level feedback from the working conference can be found here: https://www.iaasb.org/system/files/meetings/files/20170315-IAASB-Agenda_Item_7-SMP_SME-Audits-Presentation_0.pdf

⁴ <https://www.ifac.org/publications-resources/iaasb-strategy-and-work-program-2012-2014.pdf>

- Users of AUP reports such as securities regulators and funding agencies;
 - NSS in Africa, Asia, Europe and North America;
 - Practitioners who perform AUP engagements, including representatives from large multi-national firms and the International Federation of Accountants' Small-and-Medium-Sized-Practices Committee; and
 - Other organizations subject to regulatory oversight.
6. As part of the WG's information gathering activities, the WG has also considered projects undertaken in a number of jurisdictions by NSS and professional accounting bodies such as the Australian Auditing and Assurance Standards Board, the American Institute of Certified Public Accountants, the Japanese Institute of Certified Public Accountants and the Royal Netherlands Institute of Chartered Accountants to explore how AUP engagements can be enhanced in light of the increasing demand.
7. The IAASB discussed AUP engagements at its March 2015, June 2015, March 2016, June 2016, and September 2016 meetings, and also benefited from insights from the IAASB Consultative Advisory Group's (CAG) discussions at its September 2015 and March 2016 meetings, and from outreach to various NSSs. The information gathering activities formed the background for the development of the Discussion Paper, which was published in November 2016.

Responses to the Discussion Paper

8. Fifty-four responses to the Discussion Paper were received from a wide range of stakeholders and jurisdictions. Significantly, the responses were overwhelmingly supportive of the views and conclusions expressed in the Discussion Paper relating to a revision of ISRS 4400. For example, there was significant support that:
- Professional judgment has a role in an AUP engagement, particularly in the context of professional competence and due care;
 - ISRS 4400 (Revised) should be clarified to include non-financial information within its scope;
 - Unclear or misleading' terminology should be prohibited unless required by law or regulation;
 - ISRS 4400 (Revised) should address the use of the work of a practitioner's expert; and
 - The AUP report can be provided to a party who is not a signatory to the engagement agreement provided the party has a clear understanding of the AUP and the conditions of the engagement.
9. In addition, respondents agreed that guidance on multi-scope engagements would be useful, but that the guidance should be developed after completing the ISRS 4400 revision project.

How the Project Serves the Public Interest

10. Users of AUP reports and other stakeholders have identified an urgent need to clarify, enhance and modernize ISRS 4400. The clarification, enhancement and modernization of ISRS 4400 serves the public interest by:
- *Responding to the needs of the IAASB's stakeholders*—Updating ISRS 4400 to better meet the needs of users, such as regulators, funding bodies and creditors, for increased accountability around the use of grants that are often provided from public funds, and facilitating innovation and enhancing services available to entities of all sizes (and to SMEs in particular). For example, in some economies, the role of the state in providing services such

as welfare or investment incentives, is linked to demands for accountability related to the provision of such interventions, which could be addressed (in part) through AUP engagements;

- *Providing clarity in the AUP report*—Enhancing the report for clearer, more consistent language which will help clarify what was done and the results therefrom, thereby reducing confusion that may arise in practice about AUP engagements; and
- *Reducing inconsistency in the performance of AUP engagements*—redrafting using the clarity drafting conventions and other changes for clarification and enhancement will promote consistent interpretation and performance of AUP engagements by practitioners.

Project Scope

11. The project scope is to:

- (i) Revise ISRS 4400 to address the issues as set out in the “major issues to be addressed” section of this project proposal; and
- (ii) Redraft ISRS 4400 using the clarity drafting conventions.

Topics outside the Scope of this Project

12. The Discussion Paper sought views on whether the IAASB should address multi-scope engagements and if so, the priority of addressing such engagements. A strong majority of respondents agreed that multi-scope engagements should be considered for inclusion in a future IAASB Work Plan after the completion of this project. Accordingly, this project will not be addressing multi-scope engagements.

Project Objective

13. The project objectives are to:

- Redraft the standard using the clarity drafting conventions so that this standard is consistent with other IAASB International Standards.
- Revise the standard to better reflect practice in AUP engagements being undertaken as outlined in greater detail in the section ‘Major Issues That Will Be Addressed’ (paragraph 14).

III. Outline of the Project

Major Issues That Will Be Addressed

14. In addition to redrafting ISRS 4400 using the clarity drafting convention, the project will include the consideration of changes as appropriate in respect of:

- *Professional judgment*—revisions to the requirements and development of application material on the role of professional judgment in an AUP engagement in areas such as engagement acceptance, modifying the terms of the engagement, planning the engagement, clarifying the practitioner’s responsibilities when becoming aware of fraud.
- *Professional skepticism*—monitoring the developments of, and consulting with, the Professional Skepticism Working Group on any need to add references to skepticism in the revised standard.
- *Independence*—clarification of the requirements relating to objectivity, and disclosure of non-independence, in ISRS 4400. This will involve liaison with the IESBA.

- Terminology—clarification of what constitutes appropriate, or inappropriate, terminology to avoid unclear and misleading terminology being used in AUP reports.
- Non-financial information—clarification that non-financial information is within the scope of ISRS 4400 and developing requirements and application material on pre-acceptance considerations.
- Use of a practitioner’s expert—developing new requirements and application material to address the use of the work of an expert in an AUP engagement, including the practitioner’s responsibilities when using the work of an expert and consideration of whether it is appropriate to include references to an expert in an AUP report.
- Format of the AUP report—include a limited number of illustrative AUP reports to illustrate the changes that have been made in the revisions to ISRS 4400.
- AUP report restrictions and how this is presented in the AUP report—clarification of those situations when an AUP report may be provided to a party who is a non-signatory to the engagement agreement, and developing requirements on inclusion of a statement in the AUP report regarding the intended user(s) of the AUP report and application material on restricting the AUP report.
- Recommendations arising from the performance of AUP engagements, if any—clarification of how such recommendations can be distinguished from the actual AUP report.
- Other matters, such as:
 - Documentation—development of requirements and application material dealing with documentation of the AUP engagement.
 - Linkage with ISQC) 1⁵—clarification of the linkage between the ISRS 4400 (Revised) and ISQC 1.
 - Criteria for accepting AUP engagement—development of requirements and application material dealing with criteria such as whether the procedures are capable of being objectively determined and resulting in factual findings.

Considerations of Project Impact Analysis

15. The primary benefits of this project is to revise ISRS 4400 to make it more appropriate for AUP engagements in today’s environment and to make clear in the AUP report the nature of the procedures undertaken and the findings therefrom. The revision and redrafting of the standard will enhance the IAASB’s suite of engagement standards available to practitioners to meet the needs of

⁵ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

entities that do not require reasonable or limited assurance engagements, but find value in having practitioner involvement in another way.

16. Regardless of the outcome of the project, for all stakeholders, there will be associated:
- Benefits, such as:
 - Greater consistency in performing AUP engagements;
 - Clarifying the scope of AUP engagements to include non-financial information;
 - Clearer understanding of the work performed and, therefore, less confusion by users of the AUP report;
 - Improvements to the quality of AUP reports;
 - Improvements to the relevance and usefulness of the AUP report.; and
 - Improved communications between practitioners, regulators, regulated entities and constituencies served by the regulators.
 - Costs such as updating, maintenance and training costs involved in changes to templates and methodologies.

IV. Implications for any Specific Persons or Groups

17. This project is likely to impact a wide range of stakeholders, including:
- Users of AUP reports such as regulators, funding bodies and creditors who request AUP reports, for example, to assist in oversight or to support loan or grant applications.
 - Entities that engage practitioners to perform AUP engagements, including, for example, SMEs, public sector entities and other organizations subject to regulatory oversight.
 - Practitioners who perform AUP engagements.
 - NSSs that have developed national AUP standards and guidance.

V. Development Process, Project Timetable and Project Output

Development Process and Project Timetable

18. The project will be conducted in accordance with the Public Interest Activity Committees' Due Process and Working Procedures.⁶
19. A tentative timetable for this project is set out below.

Timing	Action
Throughout 2018	Conduct outreach with stakeholders, in particular, regulators and other users of AUP reports.
June 2018	IAASB discussion of the Task Force's preliminary views on the issues to be addressed in the ISRS 4400 revision project.

⁶ https://www.ifac.org/system/files/uploads/PIAC-Due_Process_and_Working_Procedures.pdf

Timing	Action
September 2018	IAASB CAG consideration of issues and draft Exposure Draft (ED) IAASB first read of ED
March 2019	IAASB CAG consideration of draft ED IAASB approval of ED
September 2019	IAASB CAG consideration of ED responses and Task Force’s proposed dispositions of the ED responses Report back to the IAASB on ED responses and the Task Force’s proposed dispositions of the ED responses
December 2019	IAASB first read of draft final standard
March 2020	IAASB CAG consideration of draft of the final standard IAASB approval of final standard

Project Output

- 20. The output of the project is a revised ISRS 4400. The Task Force will also consider the need for further engagement with NSSs to assess the effectiveness of the new standard in achieving its objectives and for additional communications on the project such as an “*At-a-Glance*” document.

VI. Resources Required

- 21. A project Task Force will be established consisting of IAASB members and technical advisors with diverse backgrounds and relevant experience. The project will be chaired by an IAASB member and supported by NSS staff. IAASB technical staff will oversee the project to ensure the project is performed in accordance with due process. It is expected that some members of the WG will continue as members of the project Task Force.