

Proposed ISRS 4400 (Revised)¹—Issues and Recommendations

Objective of Agenda Item

The objective of this agenda item is to obtain the Representatives' views on the Exposure Draft of proposed ISRS 4400 (Revised).

Section 1: Introduction and Overview of Agenda Items

1. This paper sets out the Agreed-Upon Procedures (AUP) Task Force's (the 'Task Force') views about proposed changes to ISRS 4400 (Revised). The Task Force will be presenting an Exposure Draft of proposed ISRS 4400 (Revised) to the Board for approval in its September 2018 meeting.
2. This paper is set out as follows:
 - Section 2 – Describes the public interest considerations as included in the project proposal and how these have been addressed by the Task Force.
 - Section 3 – Provides an explanation of the substantial changes that have been made since the September 2017 CAG meeting, and the Task Force's considerations about various matters raised for further discussion, including:
 - References to quality control
 - Definitions;
 - Relevant ethical requirements;
 - Professional judgment;
 - Engagement acceptance and continuance;
 - Performing the agreed-upon procedures engagement;
 - Using the work of a practitioner's expert;
 - The agreed-upon procedures report; and
 - Documentation.
 - Section 4 – Describes the Task Force's views on matters for inclusion in the Explanatory Memorandum, the exposure period and the effective date.
3. The paragraph references in this paper are to **Agenda Item H.2** for the requirements and **Agenda Item H.3** for application material.

¹ Proposed ISRS 4400 (Revised), *Agreed-Upon Procedures Engagements*

Section 2: Public Interest Considerations

4. The following table outlines the key public interest considerations that were included in the project proposal and the relevant paragraphs in proposed ISRS 4400 (Revised) that address these considerations.

Key Public Interest Matter²	Description of Changes made to address identified issues	Relevant paragraphs in Proposed Exposure Draft
<p>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:</p> <p>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.</p>	<p>Broadened scope to include both financial information and non-financial information.</p> <p>Added examples of AUP engagements that satisfy users, such as regulators and others.</p> <p>Explanation that the term “information” encompasses all matters on which AUP are performed.</p>	<p>Paragraph 2 and A1 and A1A.</p>
<p>Modernized ISRS 4400 (Revised) by adding requirements dealing with the role that professional judgment plays in an AUP engagement.</p> <p>Added application material that identifies areas in which professional judgment is applied.</p>	<p>Modernized ISRS 4400 (Revised) by adding requirements dealing with the role that professional judgment plays in an AUP engagement.</p> <p>Added application material that identifies areas in which professional judgment is applied.</p>	<p>Paragraph 19 and A15-A17.</p>
<p>Enhanced explanations of what distinguishes assurance engagements and AUP engagements.</p>	<p>Enhanced explanations of what distinguishes assurance engagements and AUP engagements.</p>	<p>Paragraphs 4-6 and A17</p>
<p>Enhanced requirements dealing with compliance with laws and regulations and fraud.</p>	<p>Enhanced requirements dealing with compliance with laws and regulations and fraud.</p>	<p>Paragraph 7</p>
<p>Providing clarity in the AUP report—Enhancing the report for</p>	<p>Enhanced requirements and application material on ensuring</p>	<p>Paragraphs 21(b) and A24 – A27</p>

² As noted in the Project Proposal for the revisions of ISRS 4400 (Revised), <http://www.iaasb.org/system/files/meetings/files/20170918-IAASB-Agenda-Item-5-B-Agreed-Upon-Procedures-Project-Proposal-UPDATED.pdf>

<p>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.</p>	<p>language used is clearer and more consistent to reduce confusion by explaining that procedures and findings are described objectively, in terms that are clear, not misleading and not subject to varying interpretations.</p> <p>Adding a requirement that the AUP report include a statement on the independence of the practitioner and refereeing to the ethical requirements followed.</p>	<p>Paragraph 29 (f)</p>
<p>Reducing inconsistency in the performance of AUP engagements—redrafting using the clarity drafting conventions and other changes for clarification and enhancement.</p>	<p>Clarity drafting conventions adopted for proposed ISRS 4400 (Revised). Among other matters, this comprised:</p> <ul style="list-style-type: none"> - Adding a clear description of what an AUP engagement is and the value it provides. - Setting an objective and establishing the practitioner’s obligation on relation to that objective. - Clarifying the obligations imposed on practitioners by the requirements of proposed ISRS 4400 (Revised) - Eliminating any possible ambiguity about the requirements a practitioner needs to fulfil - Improving the overall readability and understandability of proposed ISRS 4400 (Revised) 	<p>Paragraph 4-6</p> <p>Paragraph 13</p> <p>Paragraphs 8-11</p> <p>Paragraphs 1- 33 and A1-A47</p> <p>Paragraphs 1- 33 and A1-A47</p>

Section 3: Explanation of Significant Items in Proposed Exposure Draft

References to Quality Control

5. The Chair of the Task Force had a teleconference with the Chair of the ISQC Task Force, Ms. Karin French, on July 16, 2018 to obtain her views on how to deal with quality control in the proposed draft of proposed ISRS 4400 (Revised) deal with quality control (paragraphs 3, 20, A2-A7 and A19-A21).
6. Based on this discussion and deliberations within the Task Force, the Task Force concluded that it would be best to replicate the paragraphs that relate to quality control from ISRS 4410 (Revised)³ so that the effective date of ISRS 4400 (Revised) will not be contingent on revised ISQC 1 becoming effective. This is because ISRS 4400 (Revised) would have all the necessary requirements and application material based on extant ISQC 1.
7. In addition, the requirements and application material related to quality control use wording lifted from existing ISRS 4410 (Revised). Using identical wording would facilitate the drafting of conforming amendments to both ISRS 4400 (Revised) and ISRS 4410 (Revised) when the revised ISQC 1 is finalized.

Definitions

Findings

8. The Discussion Paper, [*Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards*](#) (the 'Discussion Paper'), sets out the Working Group's view that an AUP engagement should result in objectively verifiable factual findings and not subjective opinions or conclusions. A significant majority of respondents agreed with the Working Group's position or confirmed that this position is consistent with their understanding. Extant ISRS 4400 also refers to "factual findings".
9. The Task Force agreed that reporting the results of performing the agreed-upon procedures should be factual. The Task Force, however, discussed whether the term "factual findings" may imply that there might be findings that are "not factual". Further, the term "factual findings" is translated as "findings" in some jurisdictions, making no distinction between the term "findings" and "factual findings"
10. The Task Force therefore concluded to:
 - Use the term 'findings' instead of 'factual findings';
 - Include a definition of 'findings'; and
 - Require that findings be capable of being described objectively, and in terms that are clear, not misleading, and not subject to varying interpretations in paragraph 21(b).⁷
11. At the March 2018 IAASB meeting, the Board agreed with the use of the term "findings" to describe the results of the procedures performed in an AUP engagement. However, the Board directed the Task Force to consider further clarifications to the definition of "findings".
12. The Task Force reconsidered the definition of findings and is of the view that the two elements of findings [capable of being (i) objectively verified and (ii) objectively described] are equally important.

³ ISRS 4410 (Revised), *Compilation Engagements*

However, the Task Force agrees that the two conditions are not clearly set out in the definition as presented at the March 2018 meeting. To clarify the definition of findings, the Task Force has reworded the first two sentences in paragraph 14(f) to: “*Findings are the factual results of procedures performed. Findings are capable of being objectively verified and objectively described...*”

Relevant Ethical Requirements

Practitioner’s Independence

13. The issue of the practitioner’s objectivity and independence is of important public interest as it has an impact on the quality of the engagement. The International Ethics Standards Board for Accountants (IESBA)’s *International Code of Ethics for Professional Accountants (Including the International Independence Standards)* (IESBA Code) requires the practitioner to be objective, but not independent, when performing non-assurance engagements such as AUP engagements. Consistent with the IESBA Code, extant ISRS 4400 indicates that “independence is not a requirement for AUP engagements.” However, extant ISRS 4400 states that, “where the [practitioner] is not independent, a statement to that effect would be made in the report of factual findings.”⁴ A majority of respondents to the Discussion Paper agreed with the existing approach.
14. At its August 2018 teleconference, the Board generally agreed that, consistent with the IESBA Code, a practitioner performing an AUP engagement is required to comply with the fundamental principle of objectivity but is not required to be independent. However, to enhance transparency, if the practitioner is not independent, the AUP report should include a statement to this effect. Some Board members further suggested that disclosure in the AUP report not be restricted to circumstances when the practitioner is not independent. That is, if the practitioner is independent, the AUP report should also include a statement to this effect.
15. A related issue is the criteria to be used for determining whether the practitioner is independent. In its paper presented at the IAASB August 2018 teleconference, the Task Force proposed that the criteria be Part 4B of the IESBA Code, *Independence for Assurance Engagements Other Than Audit or Review Engagements*, adapted as necessary for agreed-upon procedures engagements, or other professional, legal or regulatory requirements that are at least as demanding. Many Board members expressed some discomfort with this as it is not clear what the phrase “... adapted as necessary for AUP engagements, or other professional, legal or regulatory requirements that are at least as demanding” means, and the fact that the IESBA Code may not be used in some jurisdictions.
16. In response to comments from the Board, the Task Force has enhanced the requirements and application material pertaining to relevant ethical requirements to emphasize the key public interest benefits of objectivity and transparency:
 - Paragraph A11 clarifies that the practitioner is required to comply with relevant ethical requirements, which comprise the IESBA Code related to related services engagements, together with national requirements that are more restrictive. The IESBA Code requires practitioners to comply with fundamental principles including objectivity, which requires practitioners not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others. Accordingly, relevant ethical requirements to which the practitioner is subject would, at a minimum, require the practitioner to be objective when performing an agreed-upon procedures engagement.

⁴ ISRS 4400, paragraph 7

- Paragraph A12 further clarifies that national ethical codes, laws or regulations, the firm's policies and procedures, or the terms of engagement may require the practitioner to comply with additional ethical requirements beyond those specified in the IESBA Code related to related services engagements. For example, the practitioner may be required to comply with the IESBA Code related to related services engagements as well as Part 4B of the IESBA Code, *Independence for Assurance Engagements Other Than Audit or Review Engagements*, which contains independence requirements. The independence requirements facilitate the application of objectivity. In this case, the relevant ethical requirements would require the practitioner to be objective and to comply with the independence requirements as set out in Part 4B of the IESBA Code, adapted as necessary to related services engagements.
- Paragraph 22(d) requires the terms of engagement to include a statement as to whether the relevant ethical requirements with which the practitioner will comply in conducting the agreed-upon procedures engagement contain independence requirements, and whether the practitioner is expected to be, or not to be, independent.
- Paragraph 29(f) requires the AUP report to identify the relevant ethical requirements, including a statement as to whether the relevant ethical requirements contain independence requirements pertaining to independence and whether the practitioner is, or is not, independent.

Coordination with the IESBA

17. In the development of the requirements and application material related to the relevant ethical requirements the Task Force liaised with the IESBA Technical Director, IESBA Deputy Director and the IESBA member responsible for coordination with the IAASB (Ms. Sylvie Soulier). The comments received have been addressed in Proposed ISRS 4400 (Revised).

Professional Judgment

Role of Professional Judgment in an AUP engagement

18. To respond to the need identified in the Discussion Paper and to reflect the stakeholders' comments on the Discussion Paper, the Task Force has developed requirements and development of application material on the role of professional judgment in an AUP engagement.
19. This issue is one that has garnered the most significant discussions. The Board generally agreed that the role of professional judgment in an AUP engagement differs from that in an assurance engagement. However, comments made by the Board suggest varying views on the role of professional judgment in an AUP engagement. On the one hand, some Board members expressed the view that the role of professional judgment should be more limited. For example, some Board members suggested wording along the lines of: "it is not possible for the practitioner to apply professional judgment when performing the procedures". On the other hand, other Board members said that the role of professional judgment should be expanded and disagreed with wording implying that there are areas in an AUP engagement where little or no professional judgment is involved.
20. The Task Force considered all comments and redrafted the requirement and application material to improve the explanation of the unique role that professional judgment plays in an AUP engagement as follows:

- The practitioner exercises professional judgment taking into consideration the characteristics of an AUP engagement (paragraph 19 of proposed ISRS 4400 (Revised)); and
- Unlike in an assurance engagement, the procedures performed in an agreed-upon procedures engagement are not designed by the practitioner to obtain reasonable or limited assurance evidence to provide a basis for an opinion or assurance conclusion. Rather, an agreed-upon procedures engagement involves the performance of specific procedures agreed with the engaging party, when the engaging party acknowledges that the procedures performed are appropriate for the purpose of the engagement. Consequently, performing the agreed-upon procedures does not require the practitioner to apply professional judgment in evaluating the sufficiency of evidence obtained or to interpret findings... (paragraph A17 of proposed ISRS 4400 (Revised)).

Fraud and Non-Compliance with Laws and Regulations

21. Consistent with the position set out in the Discussion Paper and stakeholders' responses, the Board agreed that professional judgment plays a role in circumstances when the practitioner becomes aware of fraud or non-compliance with laws and regulations when performing an AUP engagement.
22. The Task Force developed paragraph 7 and footnote 2 to explain that the practitioner may have additional responsibilities relating to fraud or non-compliance with laws and regulations based on paragraphs 9 and A8 of ISA 250 (Revised).⁵ Further, the Task Force included the determination of appropriate actions if the practitioner becomes aware of facts or circumstances suggesting that the procedures to which the practitioner is being asked to agree are inappropriate for the purpose of the AUP engagement as an example of an area where professional judgment is applied in paragraph A16.

Engagement Acceptance and Continuance

Engaging Party's Acknowledgement of Procedures to be Performed

23. Extant ISRS 4400 requires the practitioner's report to include "a statement that the report is restricted to those **parties that have agreed to the procedures to be performed** since others, unaware of the reasons for the procedures, may misinterpret the results."⁶ The Discussion Paper identified a need to:
 - Clarify who the "parties that have agreed to the procedures to be performed" are; and
 - Allow for the AUP engagement report to be provided to a party (such as a regulator or funder) who is often not a signatory to the engagement letter.

A significant majority of respondents to the Discussion Paper agreed.

24. "Parties that have agreed to the procedures to be performed" could be interpreted as referring to:
 - The engaging party only; or
 - The engaging party and the intended users.

Further, the engaging party may or may not be the responsible party.

⁵ ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

⁶ ISRS 4400, paragraph 6

25. To respond to the need identified in the Discussion Paper and to reflect the stakeholders' comments on the Discussion Paper, the Task Force included definitions for the various parties involved in an AUP engagement, and developed requirements and application material to clearly set out the practitioner's responsibilities relating to each party.
- Based on the Board's discussions, the Task Force has developed: Definitions for engaging party, intended users and responsible party in paragraphs 14(d), (g) and (j) respectively;
 - A requirement for the engaging party to acknowledge that the procedures to be performed are appropriate for the purpose of the engagement as a condition for the practitioner to accept the engagement in paragraphs 21(a) and 22(c); and
 - Application material in paragraph A23 to explain that agreeing the procedures to be performed with the engaging party helps to provide the engaging party with a basis to acknowledge that the procedures to be performed are appropriate for the purpose of the engagement; and
 - Application material paragraph A28 to provide guidance on actions that the engaging party may take (for example, discussing proposed procedures with intended users) so that the engaging party is able to acknowledge the appropriateness of the procedures to be performed.

Terminology

26. In response to a need for clarification of what constitutes appropriate, or inappropriate, terminology as identified in the Discussion Paper and stakeholders' comments on the Discussion Paper, the Task Force has developed application material in paragraphs A24-A27.
27. The Task Force also considered providing a list of words that should not be used in an AUP engagement in a similar fashion as that included in some national AUP standards. However, the Task Force decided not to do so as certain words may:
- Not be unclear, or may be misleading or subject to varying interpretations because of the context in which they are used;
 - Be required by law or regulation (and a definition of the term is included in the AUP report so that the description of the procedure or finding is no longer unclear, misleading or subject to varying interpretations); or
 - Present translation difficulties.

Performing the Agreed-Upon Procedures Engagement

Written Representations

28. In response to other matters raised by respondents to the Discussion Paper, the Task Force has considered a requirement to obtain written representations, but decided not to include such a requirement for the following reasons:
- The engaging party may not be the responsible party. In such cases, it may not be practicable for the practitioner to obtain representations from the responsible party.
 - Representations are intended to serve as evidence to support a practitioner's opinion or assurance conclusion.

- Acknowledgement of the engaging party's responsibilities is already addressed in agreeing the terms of engagement.
29. In its March 2018 meeting the Board agreed with the Task Force's proposals but indicated that proposed ISRS 4400 (Revised) should include an acknowledgement that representations are sometimes requested in practice as well as examples of what may be included in a representation letter. To address the views expressed, the Task Force developed paragraph A38 of proposed ISRS 4400 (Revised). As there is no requirement for the practitioner to obtain written representations, for the reasons indicated in the paragraph above, the Task Force agreed to not include guidance on a "complete" set of representations or an illustrative representation letter.

Using the Work of a Practitioner's Expert

30. Respondents to the Discussion Paper were of the view that it would be useful to develop 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.

As a response, the Task Force drafted requirements and application material dealing with the use of a practitioner's expert (see paragraph 27 and A39-A40).

31. When developing the application material on the use of a practitioner's expert, the Task Force included, among other examples, an example of a technician operating a drone to assist the practitioner in taking aerial photographs. This example is included to demonstrate how a practitioner's expert can assist the practitioner without applying professional judgment in evaluating the sufficiency of evidence obtained or interpreting findings. The Task Force believes that such use of a practitioner's expert is likely going to become more prevalent with technological advances.

Referring to a Practitioner's Expert in an AUP Engagement Report

32. To deal with circumstances when the AUP report refers to a practitioner's expert, the Task Force followed the same approach as ISAE 3000 (Revised)⁷ by including:
- A requirement in paragraph 30 in proposed ISRS 4400 (Revised) that, if the practitioner refers to the procedures performed by a practitioner's expert in the AUP report, the wording of the AUP report shall not imply that the practitioner's responsibility for performing the procedures and reporting the findings is reduced because of the involvement of that expert; and
 - Application material to provide guidance on considerations when referring, in the AUP report, to a practitioner's expert who performed any of the AUP in paragraph A46 of proposed ISRS 4400 (Revised).

The Agreed-Upon Procedures Report

Illustrations of AUP Engagement Reports

33. Respondents to the Discussion Paper suggested to include a limited number of illustrative AUP reports to illustrate the changes that have been made in the revisions to ISRS 4400. In response the

⁷ ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, paragraphs 70 and A185-A186

Task Force presented, at the IAASB March 2018 meeting, two illustrations of AUP engagement reports. The IAASB directed the Task Force to consider further clarifications to the illustrative reports – for example, clarifying:

- How the practitioner determined that the 125 contracts obtained by the practitioner are the only contracts relevant to the AUP engagement.
- What the finding of “no exception” means.

34. In response to the IAASB’s direction, the Task Force has revised the illustrative AUP engagement reports in Appendix 2.

Date of Report

35. The Working Draft of proposed ISRS 4400 (Revised) presented at the IAASB March 2018 meeting included a requirement for the practitioner to “date the report no earlier than the date on which the practitioner has completed the AUP and described the findings...” A Board member indicated that this requirement is unclear and suggested that the requirement on the date of the AUP engagement report be worded in a similar fashion as in ISRS 4410.

36. The Task Force agrees and has revised paragraph 31 of proposed ISRS 4400 (Revised) to replicate paragraph 41 of ISRS 4410 (Revised).

Other Changes to Reporting

37. In addition to the changes as previously discussed such as those set out in the sections on Relevant Ethical Requirements and Practitioner’s Expert, to enhance consistency throughout the standard, the Task Force has added references to:

- The engaging party acknowledging that the procedures are appropriate for the purpose of the engagement in paragraph 29(g)(ii); and
- If relevant, timing of the procedure in paragraph 29(h).
- The Task Force included the preamble “if relevant” before timing to reflect many of the AUP reports issued in practice today, which only describe the nature and extent (but not the timing) of the procedures performed.

Documentation

38. Respondents to the Discussion Paper suggested to develop requirements and application material dealing with documentation of the AUP engagement. In response, the Task Force presented developed a requirement in paragraph 33 and application material in paragraph A48 based on the documentation material and application material in ISA 230⁸ and ISAE 3000 (Revised).

Matter for IAASB CAG Consideration

1. The Representatives are asked for their views on the Task Force’s proposals as reflected in proposed ISRS 4400 (Revised).

⁸ ISA 230, *Audit Documentation*

Section 5: Other Matters

Matters for Explanatory Memorandum

39. The Task Force intends to include a discussion and related questions in the Explanatory Memorandum on the following matters:

- Public interest – Setting out the public interest considerations and how they have been addressed in the project and asking the question of whether a practitioner independence should become mandatory.
- Significant changes – Explaining significant changes, including why the changes are made and how they may impact AUP engagements.
- Quality control – Explaining that provisions relating to quality control are subject to change depending on comments received on the IAASB’s revisions to ISQC 1.
- Key issues – Explaining key issues and obtaining stakeholders’ input on:
 - Findings – whether the definition and the use of the term “findings” is appropriate, and whether jurisdictions that distinguish “findings” and “factual findings” are able to address this distinction within their respective jurisdictions.
 - Relevant ethical requirements – whether the requirements and application material relating to relevant ethical requirements, in particular those relating to the practitioner’s objectivity and independence, are appropriate.
 - Professional judgment – whether the requirement and application material appropriately reflect the role of professional judgment in an AUP engagement.
 - Engagement acceptance – whether the conditions as set out in paragraphs 21 and A22-A29 are appropriate, including the application material on terminology used to describe procedures and findings.
 - Practitioner’s expert – whether the requirement and application material on the use of a practitioner’s expert is appropriate.

Exposure Period

40. The IAASB’s due process requires that an ED ordinarily has a 120-day comment period. This period allows sufficient time for translation of the ED in certain jurisdictions and for stakeholders to consider the proposals. The Task Force recommends that the normal 120-day comment period be maintained.

Effective Date

41. The IAASB’s usual practice is to set an effective date of a new standard approximately 18–24 months after the final standard is issued. This period allows time for firms to update their methodologies and for the development and delivery of training. The Task Force recommends that the normal 18–24 month implementation period be maintained. The Task Force also believes that early adoption should be permitted and encouraged.

Matters for IAASB CAG Consideration

2. The Representatives are asked for their views on:
 - (a) Whether there are any other matters that should be addressed in the Explanatory Memorandum.
 - (b) The exposure period and the planned effective date.