Proposed ISRS 4400 (Revised)\(^1\)—Issues and Recommendations

Objective of the Agenda Item
The objective of this agenda item is to approve ISRS 4400 (Revised).

Section 1: Introduction and Overview of Agenda Item

1. Since the August 2019 IAASB teleconference, the Agreed-Upon Procedures (AUP) Task Force (the Task Force) has focused on addressing the comments received from Board members (both during the Board meetings\(^2\) and offline comments\(^3\)) and continuing to look for ways to improve the readability and understandability of the standard. In doing so, a key objective has been to ensure that the substantive issues raised by Board members are adequately deliberated and addressed by the Task Force in preparation for Board approval. The sections in this issues paper explain how the Task Force has further considered and addressed the following matters:

- Professional judgment (Section 2);
- Independence (Section 3);
- Effective date (Section 4);
- AUP Report (Section 5);
- Other Matters in Finalizing ISRS 4400 (Revised) (Section 6);
  - Findings (Section 6A);
  - Engagement Acceptance and Continuance (Section 6B);
  - Practitioner’s Expert (Section 6C);
  - Written Representations (Section 6D);
  - Non-Compliance with Laws and Regulations (Section 6E); and
  - Parties Involved in an AUP Engagement (Including Responsible Party) (Section 6F);
- Due process matters (Section 7); and
- Implementation support activities (Section 8).

2. Sections 2 to 6 of this paper include a summary of feedback from respondents to the Exposure Draft of ISRS 4400 (Revised) (ED-4400). Detailed feedback from respondents was communicated to the Board in June 2019.\(^4\)

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\(^1\) International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*

\(^2\) June 2019 IAASB meeting and the August 2019 IAASB teleconference

\(^3\) In October 2019, a draft version of proposed ISRS 4400 (Revised) was circulated to the Board for offline comments. Views expressed by Board members through this process are referred to as ‘offline comments’ throughout the issues paper.

\(^4\) IAASB Agenda Item 3 Report on Responses (June 2019)
3. The Task Force has developed the following papers to support the discussion at the December 2019 IAASB meeting:
   - Agenda Item 4-A: Draft of Proposed ISRS 4400 (Revised) – Marked from version provided to IAASB members for offline comments;
   - Agenda Item 4-B: Draft of Proposed ISRS 4400 (Revised) – Clean;
   - Agenda Item 4-C: Task Force Analysis of Due Process Related to Re-Exposure; and
   - Agenda Item 4-D: Draft of Proposed ISRS 4400 (Revised) – Marked from Exposure Draft (ED-4400).

Coordination with the International Ethics Standards Board for Accountants (IESBA)

4. The Task Force has continued to coordinate with IESBA as to the consideration and articulation of aspects relating to ‘ethical requirements’ throughout the standard. Of particular relevance is the consideration of independence, including related disclosures, recognizing that the independence rules or provisions of the IESBA Code do not apply to AUP engagements. Consequently, in circumstances when the practitioner is not required to be independent, it is not possible to determine whether the practitioner is independent or not independent, as there are no criteria or framework to make such a determination. The Task Force’s proposals in relation to independence, as discussed in more detail in Section 3 of this paper, are based on this premise. The Task Force also requested specific feedback on references to ‘relevant ethical requirements’ in the definition of professional judgment and the statements regarding the practitioner’s compliance with relevant ethical requirements and relevant independence requirements in the illustrative AUP reports. Subject to the Board’s discussions at the December 2019 meeting, IESBA has indicated that it agrees with all the relevant proposals set out in this paper.

Approach to the Board Discussion

5. The Task Force will discuss the agenda items in the following order:
   - Draft of proposed ISRS 4400 (Revised) – the Task Force will use Agenda Item 4-A as the basis for the discussion. The Task Force will discuss the requirements and related application material together, followed by the appendices. In going through Agenda Item 4-A with the Board, the Task Force will refer to the matters set out in this paper, as necessary.
   - Due process matters – see section 7 of this agenda item.

The Board will then be asked to vote on the revised standard.

6. After the vote to approve ISRS 4400 (Revised), the Task Force will, as applicable, discuss the following agenda items:
   - Re-exposure. The Task Force will discuss its analysis of the provisions of the due process related to whether an approved ISRS needs to be re-exposed and its conclusion. See Agenda Item 4-C.
   - Implementation support activities – See section 8 of this agenda item.
Task Force

7. The members of the Task Force and its activities since August 2019 are set out in Appendix 1.

Draft Minutes

8. Extracts of the minutes of the June 2019 IAASB meeting and August 27th, 2019 IAASB teleconference are set out in Appendix 2 and Appendix 2A, respectively.

Section 2: Professional Judgment

Background

9. ED-4400 introduced a requirement for the practitioner to exercise professional judgment in accepting and conducting an AUP engagement, taking into account the circumstances of the engagement. Application material provided examples of areas where professional judgment may be applied, and to explain the unique role that professional judgment plays in an AUP engagement.

10. A significant majority of respondents to ED-4400 agreed that professional judgment is not suspended in an AUP engagement, particularly at the engagement acceptance stage. However, many respondents indicated that professional judgment cannot be exercised when performing the procedures.

11. In addition, several respondents indicated that the definition of professional judgment is confusing. For example, it is not clear:
   - What are the “professional standards” referred to in the definition. The IAASB’s Glossary of Terms currently defines “professional standards” only in the context of an audit engagement; and
   - How professional skepticism is considered in the context of exercising professional judgment.

Views Expressed at the IAASB August 2019 Teleconference and Through Offline Comments

12. The Board broadly agreed that the practitioner exercises professional judgment throughout an AUP engagement, acknowledging that it may be limited when performing the agreed-upon procedures. Accordingly, the Board cautioned against proposed wording in the application material that may be contradictory, such as the practitioner is ‘not expected’ to exercise professional judgment when performing the procedures. The Board therefore disagreed with the notion that professional judgment may be “suspended” when performing the procedures.

13. The Board also cautioned against introducing extensive introductory paragraphs to explain the differences between AUP engagements and assurance engagements. It was noted that these introductory paragraphs may create confusion for practitioners who do not ordinarily perform assurance engagements.

Task Force’s Proposed Disposition

14. To clarify that professional judgment may be exercised throughout the engagement, including during reporting, the Task Force made a minor amendment to paragraph 18 of ED-4400: “The practitioner shall exercise professional judgment in accepting, conducting and reporting on an agreed upon
procedures engagement, taking into account the circumstances of the engagement.” Offline comments by the Board broadly supported the revised wording of the requirement.

15. To further clarify where, and how, professional judgment is exercised in an AUP engagement without implying that professional judgment is ever “suspended” or “prohibited,” the Task Force proposes the following:

- Adding new examples and subheadings to paragraph A15 to better demonstrate how professional judgment may be exercised when accepting, conducting and reporting on the AUP engagement (to mirror proposed requirement).
- Clarifying, in the examples under “Conducting the engagement” in paragraph A15, that the practitioner is more likely to exercise professional judgment in determining an appropriate action or response resulting from performing the procedures, as opposed to during the performance of the specific procedures.
- Amending paragraph A16 to explain the reasons why, in conducting the engagement, the need for the practitioner to exercise professional judgment when performing AUP is limited.

16. The Task Force amended the definition in paragraph 13(j) to define professional judgment as “the application of relevant training, knowledge and experience, within the context provided by this ISRS and relevant ethical requirements standards…” The amended definition is largely consistent with the definition of professional judgment in ISAE 3000 (Revised), which defines professional judgment as “the application of relevant training, knowledge and experience, within the context provided by assurance and ethical standards…” In the view of the Task Force, a reference to relevant ethical requirements (as opposed to ethical standards) is more appropriate in ISRS 4400 (Revised) given the other references to “relevant ethical requirements” within the standard.

17. The Task Force considered comments in relation to professional skepticism (referenced in paragraph 11 of this agenda item) but is not proposing any changes. Currently, professional skepticism is only referenced in the context of critical assessment of evidence in audit and assurance engagement standards. The Task Force notes that the definition of professional judgment may be reconsidered at a later date (after the completion of ISRS 4400 (Revised)) when the IESBA completes its project to promote the role and mindset expected of professional accountants.

18. In addition to the above, the Task Force proposed editorial and other clarification changes to the application material pertaining to professional judgment as suggested by the Board and respondents to ED-4400.

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5 International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, paragraph 12(t)
6 IESBA has agreed that the reference to relevant ethical requirements is appropriate.
Section 3: Independence

Precondition – Background and Views Expressed by the Board

Background

19. Consistent with extant ISRS 4400 and the IESBA’s Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), ED-4400 does not include a precondition for the practitioner to be independent when performing an AUP engagement nor a requirement for the practitioner to determine independence. A significant majority of respondents agreed that there should not be a precondition for the practitioner to be independent when performing an AUP engagement.

Views Expressed at the IAASB August 2019 Teleconference and Through Offline Comments

20. Subject to local laws, regulations or ethical requirements that may be more restrictive, the Board agreed not to include a precondition for the practitioner to be independent when performing AUP engagements. The Board also agreed not to require the practitioner to determine independence, considering that there is no recognized framework to measure independence in the context of ISRS engagements. However, a few members suggested that independence should be considered during the engagement acceptance stage.

21. In response to the suggestion that independence should be considered during the engagement acceptance stage, the Task Force proposed, at the August 2019 teleconference, a requirement for the practitioner to inquire with the engaging party as to whether independence should be a precondition for the engagement. The Board highlighted the following concerns with the proposal:

- The proposed requirement is not practicable as there are no generally accepted criteria to determine or measure independence against.
- Under this proposal, the decision of whether independence may be appropriate rests with the engaging party. The Board questioned whether the engaging party may always be sufficiently knowledgeable to make such a determination. Moreover, there is no obligation on the practitioner to determine whether independence may be appropriate.

22. Subsequent to the August 2019 teleconference, the Task Force developed alternative requirements and application material to address the concerns expressed, and invited Board members to provide offline comments on these materials. For example, the requirement to inquire with the engaging party as to whether independence should be a precondition for the engagement was removed. In addition, application material explained that the practitioner may wish to discuss with the engaging party as to whether it is appropriate for the engagement to be conducted by an independent practitioner. Key views expressed by members on these materials included the following:

- It is still unclear what the practitioner would do when relevant ethical requirements do not require the practitioner to be independent, for example:
  - How does the practitioner consider if independence may be important?
  - What possible frameworks could be used to help determine independence?

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8 ISRS 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information
• In the absence of independence requirements for AUP engagements, it is not possible for the practitioner to determine that the practitioner is independent. However, the practitioner may state that the practitioner has complied with independence requirements applicable to other types of engagements (e.g., assurance engagements) for the purpose of the AUP engagement.

Disclosures – Background and Views Expressed by the Board

Background

23. To enhance transparency, ED-4400 required certain disclosures depending on whether the practitioner is required to be independent and whether the practitioner is, indeed, independent.

24. 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. These respondents indicated that, if the practitioner is not required to be independent, the additional statement that the practitioner is not required to be independent and is not independent:

• Is not useful or relevant;

• Diminishes the perceived value of the findings; and

• May cause confusion to AUP report users due to the lack of uniformity in reporting resulting from the absence of generally accepted criteria for determining independence.

Views Expressed at the IAASB August 2019 Teleconference and Through Offline Comments

25. While views regarding independence disclosures were mixed, the Board generally agreed with limited disclosure when the practitioner is not required to be independent. The Board indicated that the required disclosures should:

• Address concerns regarding the lack of generally accepted criteria for determining independence when the practitioner is not required to be independent;

• To the extent practicable, enhance transparency in circumstances when the practitioner is not required to be independent; and

• Be as simple as practicable to promote consistency in reporting.

Independence – Task Force's Proposed Approach

26. The Task Force recognizes that there are numerous disparate views among respondents to ED-4400 and the Board on the appropriate disclosures relating to independence. The Task Force carefully deliberated all input received but has not identified a solution that will fully address all views in every circumstance. However, the Task Force has developed an approach that it believes is the best fit given the variety of circumstances that may arise in practice.
No Precondition for Practitioner to be Independent

27. The Task Force recognizes the strong support for the approach as proposed in ED-4400 – that is, not including a precondition for the practitioner to be independent and not requiring the practitioner to determine independence (if the practitioner is not otherwise required to be independent). The Task Force reaffirms its view that proposed ISRS 4400 (Revised) should not require the practitioner to be independent or require the practitioner to determine independence. The Task Force notes that this view is also supported by IESBA and the Small-and-Medium Practices Committee.

Compliance with Independence Requirements

28. In the absence of independence requirements for AUP engagements, it is not possible for the practitioner to be independent (or not independent) for the purpose of the AUP engagement. This is because there are no criteria against which the practitioner can determine whether the practitioner is, or is not, independent. However, the practitioner can choose to comply with a set of independence requirements (for example, independence requirements applicable to assurance engagements) for the purpose of the AUP engagement. Accordingly, the Task Force’s proposed approach is premised upon whether the practitioner is required to comply with independence requirements.

Agreeing in the Terms of Engagement to Comply with Independence Requirements

29. The Task Force recognizes that, even though the IESBA Code does not contain independence requirements applicable to AUP engagements, there may be other “external” independence requirements. For example, national ethical codes, laws or regulations, other professional requirements, or conditions of a contract, program, scheme or arrangement relating to the subject matter for the agreed-upon procedures engagement may specify requirements pertaining to independence.

30. In the absence of 'external requirements,’ the practitioner may become aware of indications suggesting that a discussion with the engaging party pertaining to compliance with independence requirements may be appropriate when considering engagement acceptance and continuance or agreeing the terms of engagement; for example, when considering the purpose of the AUP engagement, intended users and other parties, etc. Depending on the outcome of the discussion with the engaging party, the terms of engagement may include a requirement for the practitioner to comply with relevant independence requirements.

Binary Disclosures

31. The Task Force is proposing a binary approach under which the practitioner is either:
   - 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.

32. The proposed approach is reflected in paragraphs 21(e), 22(d), A25A and A25B. The use of paragraphs A25A and A25B (to provide guidance on the practitioner’s consideration and discussion with the engaging party) is consistent with the Board’s view expressed at the August 2019 teleconference that it is not practicable to require such a discussion. Further, the application material provides flexibility because compliance with independence requirements may not be relevant or
necessary in the circumstance – for example, when the engaging party is the responsible party and intended user (e.g., management engaging a practitioner to perform AUP on internal controls) or when the engagement is straightforward.

33. The Task Force believes that binary disclosures will reduce confusion and improve consistency in reporting. The disclosures are reflected in:

- Para. 30(j)(i) and Illustration 1 of Appendix 2 when the practitioner is not required to comply with independence requirements; and
- Para. 30(j)(ii) and Illustration 2 of Appendix 2 when the practitioner is required to comply with independence requirements.

<table>
<thead>
<tr>
<th>Is the practitioner required to be independent, or has the practitioner agreed in the terms of engagement, to comply with independence requirements?</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practitioner has not determined compliance with independence requirements</td>
<td>Not Applicable</td>
<td>Statement that there are no independence requirements with which the practitioner is required to comply.(^9)</td>
</tr>
<tr>
<td>Practitioner has determined compliance with independence requirements</td>
<td>Statement that the practitioner has complied with the relevant independence requirements and a statement identifying the relevant independence requirements.</td>
<td>Not Applicable</td>
</tr>
</tbody>
</table>

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\(^9\) IESBA has agreed with this wording.
Overview of the Proposed Binary Approach

34. The Task Force has reorganized, revised and clarified the requirements and application material relating to independence to reflect the approach in the following diagram:

Are there any “external” requirements for the practitioner to comply with independence requirements? (See guidance in para. A13)

- Y
  - When considering engagement acceptance and continuance or agreeing the terms of engagement, is the practitioner aware of indications that a discussion with the engaging party pertaining to compliance with independence requirements may be appropriate? (See guidance in para. A25A)
    - Y
      - Based on discussion with the engaging party, agree in terms of engagement to comply with relevant independence requirements? (See guidance in para. A25B)
        - Y
          - Practitioner is required to comply with independence requirements. Relevant requirements and application material:
            - Engagement acceptance: 21(e), 22(d)
            - Reporting: 30(j)(ii), Appendix 2 Illustration 2
        - N
          - Practitioner is not required to comply with independence requirements. Relevant requirements and application material:
            - Engagement acceptance: 22(d), Appendix 1
            - Reporting: 30(j)(i), Appendix 2 Illustration 1

Section 4: Effective Date

Background

35. ED-4400 reflected the Board’s view that an appropriate effective date would be for **terms of engagement agreed** approximately 18–24 months after the approval of ISRS 4400 (Revised). This is because an effective date based on the date of the AUP report would not address circumstances when the AUP engagement commences under extant ISRS 4400 but is ultimately completed (and the AUP report issued) after the effective date of proposed ISRS 4400 (Revised). Such circumstances are not unusual in the public sector when the practitioner may be engaged to perform AUP engagements for multiple years and the terms of engagement may specify that the AUP
engagements are to be performed under extant ISRS 4400 for those years ("engagement period"). If ISRS 4400 (Revised) were to become effective for AUP reports dated during the engagement period, practitioners may not be able to comply with the terms of engagement.

36. A majority of respondents did not raise any concern with the proposed effective date. However, some respondents expressed a concern that basing the effective date on when the terms of the engagement are agreed to would not be practical for recurring engagements or when there has been an amendment in the terms of engagement. The respondents suggested that the effective date be based on the AUP report date, which would make the effective date consistent with those in other IAASB pronouncements such as ISAE 3000 (Revised).

Views Expressed at the IAASB June 2019 Meeting and Through Offline Comments

37. At the June 2019 meeting, the Board discussed the merits of basing the effective date on either the AUP report date or the date when the engagement was agreed to. The balance of views supported the latter. However, some Board members expressed concern that there may be a significant delay in implementing the new standard when the terms of an existing engagement cover multiple periods. Accordingly, in further considering the basis of the effective date, the Board suggested that the Task Force consider adding application material to avoid an unreasonable delay in implementing the standard.

38. In response to the Board’s suggestion, the Task Force proposed the following application material (included in the October ‘offline’ version):

‘For terms of engagement covering multiple years, practitioners may wish to update the terms of engagement to reflect the effective date of this ISRS so that agreed-upon procedures engagements performed on or after the date on which the revised terms are agreed will be conducted in accordance with this ISRS.’

39. Some Board members questioned whether such guidance should be included in the application material, as it will only have a limited ‘shelf life’ (because it is transitional in nature). Some Board members suggested that such material is better placed in non-authoritative guidance outside the standard.

Task Force’s Proposed Disposition

40. The Task Force agrees with the Board’s view that guidance on transitional matters is better placed outside of the standard and has therefore removed the application material.

41. From the balance of views expressed by respondents to ED-4400 and by IAASB members at the June 2019 meeting, the Task Force believes that there is not sufficient support for making a change from ED-4400. Accordingly, the Task Force proposes an effective date that is:

- Based on when the engagement was agreed; and
- Approximately 18–24 months after the approval of ISRS 4400 (Revised).

42. Assuming that the Board approves ISRS 4400 (Revised) in December 2019, the expected final approval from the Public Interest Oversight Board is expected in March 2020. In line with historical implementation dates coinciding with a calendar year, the Task Force proposes that ISRS 4400
(Revised) is effective for AUP engagements for which the terms of engagement are agreed on or after December 31, 2021.

Section 5: AUP Report

Background

43. 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. It is unclear who the “parties that have agreed to the procedures to be performed” are. A narrow interpretation is that the AUP report is restricted to signatories to the engagement letter. To address broad concerns that AUP reports are often required to be provided to users who are not parties to the terms of the engagement, ED-4400 no longer required the AUP report to include a statement that the report is restricted. A significant majority of respondents agreed that the AUP report should not be restricted to parties that have agreed to the procedures to be performed.

44. ED-4400 also set out additional matters to be included in an AUP report to enhance the transparency of the engagement. In addition, ED-4400 included new illustrative reports to provide examples of how the procedures and findings may be described in an AUP report. A majority of respondents agreed with the proposed structure and content of the AUP report. However, several suggestions to enhance the AUP report were provided by respondents.

Views Expressed at the IAASB June 2019 Meeting and Through Offline Comments

45. The Board agreed not to include a restriction of use or distribution in the AUP report. A few members indicated that the Task Force should consider including guidance on when the practitioner may wish to restrict the AUP report, for example, if the AUP report contains confidential information or there is an elevated risk of users misinterpreting the findings.

46. The Board agreed with the Task Force’s preliminary view not to mirror the structure and content of the AUP report to the new auditor’s report – i.e., the procedures and findings should not be placed upfront.

Task Force’s Proposed Disposition

47. As agreed by the Board, the Task Force retained the approach of not requiring a restriction to be placed on the AUP report. To provide further guidance on factors that the practitioner may consider in deciding whether to restrict the AUP report and to address respondents’ suggestions, the Task Force proposes to add:

- Paragraph A37A explains why neither a restriction on use nor a restriction on distribution can be mandated (i.e., in some jurisdictions, it may be possible to restrict the use of the AUP report but not its distribution. In other jurisdictions, it may be possible to restrict the distribution of the AUP report but not its use; and

- Paragraph A37B includes the factors that the practitioner may consider in deciding whether to restrict the AUP report. These factors were suggested by respondents to ED-4400 and by Board members during the IAASB June 2019 meeting. Paragraph A37B also clarifies that the
decision on whether to restrict the AUP report rests with the practitioner (as long as the restriction is permitted by law or regulation).

48. The Task Force has made the following changes to address respondents’ and IAASB member comments on the structure and content of the AUP report:

- Added subheadings to the illustrative AUP reports.
- Removed the 2nd reference to ‘the practitioner’ in paragraph 30(e)(i). Such reference may give the false impression that the practitioner has an “equal say” as the engaging party in determining the AUP, which undermines the premise that the engaging party is responsible for the appropriateness of the AUP.
- Added paragraph 30(e)(iii) – see further discussion in the ‘Parties Involved with an AUP Engagement (including the Responsible Party)’ section (Section 11).
- In paragraph 30(g), replaced the statement “the AUP engagement does not constitute a reasonable or limited assurance engagement...” with “the AUP engagement is not an assurance engagement...” This change addresses a respondent’s comment that the phrase “reasonable or limited assurance” is too technical and may not be well understood. Further, the proposed wording “the AUP engagement is not an assurance engagement...” is consistent with the paragraph 40(i)(i) of ISRS 4410 (Revised), which requires the compilation report to include a statement that the “compilation engagement is not an assurance engagement”.
- Amended paragraph 32 to address a respondent’s comment that requiring the date of the AUP report to be on the exact date of completion may not be practicable in all cases.
- Added paragraph A40A to address concerns raised by respondents on the inclusion of sensitive or confidential information in an AUP report. This paragraph is derived from ISAE 3000.
- Added paragraph A40B to provide guidance that the practitioner may wish to identify any procedures agreed in the original terms of engagement that could not be performed or were modified, and why that has arisen. The Task Force did not include this as a requirement as it may not be practicable to do so when agreeing terms of the engagement is an iterative process.
- Amended the illustrative AUP reports to address the situation when the engaging party is not the responsible party or when there are other intended users – see further discussion in the section on Parties Involved with an AUP Engagement (including the Responsible Party) (Section 6F).

Section 6: Other Matters in Finalizing ISRS 4400 (Revised)

49. The preceding sections set out matters that are, in the Task Force’s view, the most significant in finalizing ISRS 4400 (Revised). Section 6 provides a discussion of other matters that were raised by respondents to ED–4400 or by Board members, and the Task Force’s proposed dispositions thereof.

10 ISRS 4410 (Revised), Compilation Engagements
11 ISAE 3000 (Revised), paragraph A199
Section 6A: Findings

Background

50. Extant ISRS 4400 refers to “factual findings.” To address a concern that the term “factual findings” may imply that there might be findings that are “not factual”, ED-4400:

- Uses the term “findings” instead of "factual findings;"
- Includes a definition that “findings are the factual results of procedures performed.” Findings are capable of being objectively verified and objectively described. Accordingly, references to findings exclude opinions or conclusions in any form as well as any recommendations that the practitioner may make;” and
- Includes application material to explain that factual results are capable of being objectively described and objectively verified, which means that different practitioners performing the same procedures are expected to arrive at the same results.

51. A majority of respondents agreed with the term “findings” for the reasons stated in ED -4400. However, several respondents preferred to revert to the term “factual findings.” A key concern expressed by these respondents is that the definition of “findings” is not available to engaging parties or other intended users. Consequently, the lack of the term “factual” may give engaging parties and other intended users the impression that “findings” can go beyond those that are factual in nature.

52. A few respondents also suggested that the practitioner be allowed to provide a summary of the findings.

Views Expressed at the IAASB June 2019 Meeting and Through Offline Comments

53. The Board agreed to retain the use of the term “findings.” To help engaging parties and other intended users understand that findings are factual in nature, the Board agreed that an explanation of “findings” should be included in the engagement letter and the AUP report.

54. In relation to permitting a summary of findings, some Board members expressed concern that this option carries a risk that intended users may not be able to properly consider the procedures performed and the resulting findings by only reading the summary, which may lead to misunderstandings.

Task Force’s Proposed Disposition

55. As agreed by the Board, the term “findings” has been retained in proposed ISRS 4400 (Revised). To help engaging parties and other intended users understand that findings are factual in nature, the Task Force proposes to add paragraphs 22(e)(iA) and 30(e)(iA) to require the engagement letter and the AUP report to include an explanation that findings are the factual results of the AUP performed and are capable of being (can be) objectively verified. Corresponding changes are made to Appendices 1 and 2.

56. In addition to the above, the Task Force proposed minor amendments to the following paragraphs:
- Paragraph 13(f) – The Task Force removed the reference to “objectively described” from the definition of findings. In the Task Force’s view, while findings should be objectively described, the fact that they are objectively described is not what makes something a finding. Further, the
precondition for findings to be capable of being described objectively is set out in paragraph 21(c).

- Paragraph A11 – The Task Force clarified the circumstances when the term “findings” may be replaced with “factual findings.”

57. In its deliberations, the Task Force agreed that there is merit in allowing the practitioner to provide a summary of findings, noting that such summaries are provided in practice. For example, in circumstances when the list of procedures or findings are presented in several appendices or a lengthy report, a summary may be appropriate. However, to avoid any unintended consequences, the Task Force proposes that when a summary of findings is provided, the practitioner is required to include in the AUP report a statement indicating that reading the summary is not a substitute for reading the complete report (paragraph 31A of proposed ISRS 4400 (Revised).

Section 6B: Engagement Acceptance and Continuance

Background

58. Extant ISRS 4400 does not require any engagement acceptance and continuance conditions be present before accepting an AUP engagement. ED-4400 proposed that three engagement acceptance and continuance conditions are met before accepting the engagement to reinforce the unique characteristics of an AUP engagement.

59. A significant majority of respondents agreed with the IAASB’s proposals on the engagement acceptance and continuance conditions. Many respondents provided suggestions on additional acceptance and continuance conditions such as requiring the practitioner to determine that there is a rational purpose for the AUP engagement.

60. Some respondents expressed a concern that the engagement acceptance and continuance conditions do not provide flexibility to address changes that may take place as the engagement progresses.

Views Expressed at the IAASB June 2019 Meeting and Through Offline Comments

61. The Board indicated that the engagement acceptance and continuance conditions should include consideration of how the concept of “rational purpose” included in ISAE 3000 (Revised) might be adapted for AUP engagements. This concept includes considerations such as whether the procedures are “neutral” – that is, the results from performing the procedures would not bias intended users’ decisions.

62. The Board generally agreed with the Task Force’s view that the practitioner should be required to agree the terms of the engagement, including the expected procedures to be performed, before starting the engagement (and before performing modified procedures). Such a requirement is consistent with extant ISRS 4400 and helps to avoid misunderstandings regarding the procedures to be performed.

63. The Board further agreed with the Task Force’s view that meeting the engagement acceptance and continuance conditions remains an iterative process during the AUP engagement, and that this iterative process should be emphasized. A member suggested that the practitioner should be
required to obtain the engaging party’s acknowledgement that the procedures to be performed are appropriate prior to the completion of the engagement.

Task Force’s Proposed Disposition

64. The Task Force agreed with the concept underlying the term “rational purpose” in an AUP engagement. However, the Task Force observed that this term is generally associated with assurance engagements. Accordingly, the Task Force proposes to introduce the concept of “rational purpose” in paragraph A19A without referring to it as such.

65. The Task Force considered various ways to emphasize the iterative process of agreeing and performing the procedures. For example, the Task Force contemplated application material providing guidance that the practitioner may agree the amended terms of engagement with the engaging party verbally during the course of the agreed-upon procedures engagement. The practitioner may then obtain an updated engagement letter, add an addendum to the existing engagement letter, or obtain another form of written acknowledgement prior to the completion of the agreed-upon procedures engagement. However, the Task Force noted that such guidance may not be practicable in some jurisdictions due to contractual laws.

66. The Task Force further noted that paragraph A30 already includes an example of a simple and informal way to document procedures that have been modified during the course of the engagement (i.e. using an addendum to the existing engagement letter). For these reasons, and given that the Board has agreed that the practitioner should be required to agree the terms of the engagement before starting the engagement (and before performing modified procedures), the Task Force concluded that no further changes are necessary.

67. The Task Force proposed the following changes in response to suggestions provided by respondents to ED-4400 and IAASB members:

- Added paragraph 21(b) to include a precondition that the practitioner expects to be able to obtain the information necessary to perform the AUP engagement. This requirement is derived from paragraph 24(b)(iv) of ISAE 3000 (Revised) and is added in response to comments on consistency with ISAE 3000 (Revised).
- Added paragraph 21B to require the engagement partner to take certain actions if the engagement partner obtains information that would have caused the firm to decline the AUP engagement had that information been available earlier. This requirement is intended to convey that the engagement acceptance conditions apply throughout the engagement and is derived from paragraph 23 of ISAE 3000 (Revised).
- Added examples of potentially misleading terminology to paragraph A23.
- Added paragraph A29A to address additional matters that may be included in an engagement letter, for example, arrangements involving the use of an expert.
- Added paragraph A29C to explain that quantitative thresholds for determining factual deviations may be agreed with the engaging party. Paragraph A23 of ED-4400 indicates that terms such as “material” may be unclear, misleading or subject to varying interpretations. Paragraph A29C is intended to clarify that, although “materiality” is not appropriate in an AUP engagement.
engagement, practitioners can agree quantitative thresholds for determining factual deviations with the engaging party.

- Added "Change in management or those charged with governance of the engaging party" in paragraph A32 as another factor that may indicate that it is appropriate to revise the terms of engagement.

68. In addition to the above, the Task Force proposed editorial changes throughout the engagement acceptance and continuance requirements and application material, including repositioning paragraphs 20 and 21 and rearranging some of the requirements in paragraph 22.

**Section 6C: Practitioner’s Expert**

**Background**

69. ED-4400 introduced requirements and application material to provide guidance on how a practitioner’s expert can assist the practitioner in an AUP engagement.

70. Consistent with the approach in ISAE 3000 (Revised), if reference is made to a practitioner’s expert in an AUP report, ED-4400 requires the wording of the AUP report to not imply that the practitioner’s responsibility is reduced because of the involvement of the expert.

71. A significant majority of respondents agreed with addressing the use of the work of a practitioner’s expert in ED-4400. However, there were concerns as to whether the practitioner is able to take appropriate responsibility for the findings when the work of a practitioner’s expert is used, and whether the use of a practitioner’s expert may involve the application of significant professional judgment beyond that contemplated in an AUP engagement.

72. Other issues raised by respondents include:

- Clarifying the definition of an expert – It is unclear why a practitioner’s expert is defined as having "expertise in a field other than assurance" (emphasis added);
- Requiring agreement on the work to be performed by the practitioner’s expert – The practitioner should be required to agree the nature, timing and extent of work to be performed by the expert with the engaging party and the practitioner’s expert;
- Distinguishing different types of practitioner’s experts and the different ways a practitioner’s expert may assist the practitioner – The standard does not distinguish between using the work of a practitioner’s external expert and a practitioner’s internal expert, and between using the work of a practitioner’s expert to support the practitioner’s procedures and using a practitioner’s expert to perform the procedures; and
- Developing a better example of the use of a practitioner’s expert – It is unclear why a procurement officer is needed to assist the practitioner in Appendix 2 Illustration 2.

**Views Expressed at the IAASB June 2019 Meeting and Through Offline Comments**

73. The Board agreed with the Task Force’s proposal on neither requiring nor prohibiting a reference to the use of the practitioner’s expert. A member suggested that guidance should be provided on when the practitioner may wish to refer to an expert (for example, if the expertise is significant to the procedure). Another member indicated that if an expert is used to assist the practitioner to perform
an AUP, a reference to the expert should be included in the description of the procedure. In offline comments, one member suggested replacing the example in Appendix 2 from procurement officer with an expert in a foreign language.

Task Force’s Proposed Disposition

74. To reflect the Board’s views on referring to the practitioner’s expert in the AUP report, the Task Force amended paragraph A44 to clarify that:

- It may be appropriate to refer to the practitioner’s expert in particular circumstances, for example, when the agreed-upon procedure requires significant technical capabilities. This wording is derived from paragraph A186 of ISAE 3000 (Revised).
- The reference to the practitioner’s expert may be included in the descriptions of the AUP.

75. Consistent with ED–4400, the Task Force proposes not to mandate a reference to the practitioner’s expert in the AUP report in all circumstances. As noted in the proposed application material, such a reference would be based on the discretion of the practitioner. Further, if the AUP report were to refer to the practitioner’s expert, the Task Force proposes not to mandate that such a reference be included in the descriptions of the AUP. This is because there may be circumstances when the reference to the practitioner’s expert is required by law or regulation to be included elsewhere in the AUP report (i.e., not as part of the descriptions of the AUP).

76. To address concerns raised by respondents to ED-4400 relating to the practitioner being unable to take appropriate responsibility for the findings when the work of a practitioner’s expert is used, the Task Force proposed the following changes:

- Added paragraph 21A to require, at the engagement acceptance stage, that the practitioner be satisfied that the practitioner will be able to be involved in the work of a practitioner’s expert to an extent that is sufficient to accept responsibility for the findings included in the AUP report. This paragraph is derived from paragraph 32(b)(i) of ISAE 3000 (Revised).
- Redrafted paragraph A36 to emphasize the importance of the practitioner being able to take responsibility for the findings, and to provide guidance on steps the practitioner may take if the practitioner is unable to do so (i.e., limit the scope of the AUP engagement to procedures for which the practitioner can appropriately take responsibility. The engaging party may separately engage the expert to perform the other procedures).
- Added paragraph A44A as a reminder that “the practitioner has sole responsibility for the findings included in the AUP report, and that responsibility is not reduced by the use of the practitioner’s expert...” This wording is derived from paragraph A186 of ISAE 3000 (Revised).

77. The Task Force proposes the following definition of a practitioner’s expert:

An individual or organization possessing **expertise in a field other than assurance and related services**, whose work in that field is used to assist the practitioner in **fulfilling the practitioner’s responsibilities for the agreed-upon procedures engagement**. A practitioner’s expert may be either a practitioner’s internal expert (who is a partner or staff, including temporary staff, of the practitioner’s firm or a network firm) or a practitioner’s external expert.
78. The reference to “expertise in a field other than assurance and related services” is intended to scope out expertise that a practitioner performing AUP engagements normally possesses. The reference to “fulfilling the practitioner’s responsibilities for the AUP engagement” is intended to address the fact that a practitioner may provide assistance beyond performing procedures (as discussed immediately below).

79. In clarifying how an expert may be used in an AUP engagement, the Task Force proposed the following changes:

- Added paragraph A34A to explain that an expert may assist the practitioner in advising the engaging party on AUP to be performed (e.g., a lawyer advising the practitioner on the design of AUP to address legal aspects of a contract), or may perform part or all of an AUP (e.g., chemist determining the toxin levels in a sample of grains).

- Added paragraph A34B to distinguish the work effort from a practitioner’s internal expert vs. a practitioner’s external expert. This paragraph is derived from paragraph A125 of ISAE 3000 (Revised).

80. On agreeing to the use of a practitioner’s expert with the engaging party, the Task Force added paragraph A29A to provide guidance that arrangements concerning the involvement of an expert may be agreed to with the engaging party. Consistent with the ISAs, the Task Force has not proposed to include this in a requirement.

81. On agreeing the nature, timing and extent of work to be performed by the practitioner’s expert with the expert, the Task Force added paragraphs 28(a1) and A35A-A35B and A36A. These paragraphs are derived from paragraphs 52(c), A123 and A132-A133 of ISAE 3000 (Revised).

82. The Task considered concerns that the use of a practitioner’s expert may imply that the AUP engagement requires the application of significant professional judgment. The Task Force believes this concern is mitigated by:

- The new requirement to include an explanation of “findings” in the engagement letter and the AUP report (as discussed in Section 5) and the new requirement to apply the engagement acceptance and continuance conditions throughout the engagement (as discussed in Section 6B). These changes reinforce the premise that findings must be described objectively, in terms that are clear, not misleading or subject to varying interpretations.

- The new paragraph A34A, which explains the different ways a practitioner’s expert may assist the practitioner and demonstrates how professional judgment may be applied. For example, this paragraph clarifies that a lawyer, advising on legal aspects of a contract (which may involve significant professional judgment), is simply advising the practitioner on the design of a procedure and is not performing the procedure.

Section 6D: Written Representations

Background

83. Paragraph 27 of ED-4400 requires the practitioner to consider whether it is necessary to request written representations from the engaging party. This requirement was drafted using the phrase “consider whether it is necessary” (as opposed to requiring the practitioner to request written
representations) to reflect the view that written representations are not normally required in an AUP engagement.

84. ED-4400 did not pose a question on written representations. Nonetheless, this requirement garnered some discussion among the respondents. Key views expressed include:

- Some respondents indicated that a requirement to consider whether it is necessary to obtain representations seem overly onerous as evidence from written representations is not necessary in an AUP engagement.
- A few respondents were of the view that written representations should be required for all AUP engagements.
- A few respondents suggested developing guidance on circumstances when written representations may be appropriate.

Views Expressed at the IAASB June 2019 Meeting and Through Offline Comments

85. Subject to minor editorial changes, the Board agreed with the principle that the practitioner has to consider whether to request written representations.

Task Force’s Proposed Disposition

86. Consistent with Board’s views, as expressed at the June 2019 meeting, the Task Force:

- Clarified paragraph 27 to require the practitioner to consider whether to request written representations (as opposed to considering whether it is necessary to request written representations);
- Clarified (in paragraph A34) that requesting written representations is based on the practitioner’s decision; and
- Amended the examples in paragraph A34 to focus on specific circumstances when the practitioner may decide to request written representations (as opposed to generic examples that apply to all AUP engagements).

Section 6E: Non-Compliance with Laws and Regulations

Background

87. ED-4400 introduced the consideration of fraud and non-compliance with laws and regulations in the introductory paragraphs. Several respondents suggested to expand this area, including adding requirements or application material on specific actions that the practitioner may take if the practitioner becomes aware of actual or suspected fraud or non-compliance with laws and regulations.

Views Expressed at the IAASB June 2019 Meeting and Through Offline Comments

88. The Board supported the Task Force’s proposal to enhance the linkages to the practitioner’s responsibilities pertaining to fraud and non-compliance as set out in relevant ethical requirements. One member further suggested incorporating the material from ISRS 4410 (Revised) to deal with non-compliance with laws and regulations.
Task Force’s Proposed Disposition

89. To expand on the guidance relating to fraud and non-compliance with laws and regulations, the Task Force replaced the introductory paragraph 6 with paragraphs A13C-A13G. Paragraph A13C and A13G are derived from paragraphs A22-A26 of ISRS 4410 (Revised). These paragraphs are linked to the requirement for the practitioner to comply with relevant ethical requirements in paragraph 17.

Section 6F: Parties Involved in an AUP Engagement (Including Responsible Party)

Background

90. ED-4400 included references to the responsible party. However, this term was not defined in ED-4400. Several respondents suggested including a definition of the responsible party. In addition, the respondents encouraged the IAASB to further consider the implications when the engaging party is not the responsible party.

Views Expressed at the IAASB June 2019 Meeting and Through Offline Comments

91. The Board agreed with the Task Force’s proposal to develop a definition of the responsible party similar to the definition in ISAE 3000 (Revised), and to develop further requirements and application material to clarify the practitioner’s responsibilities in relation to various parties involved in an AUP engagement (including the responsible party).

Task Force’s Proposed Disposition

92. In response to the comments received, the Task Force made the following changes to clarify the practitioner’s responsibilities in relation to the various parties involved in an AUP engagement:

- Added a definition of responsible party in paragraph 13(l). This definition is derived from paragraph 12(v) of ISAE 3000 (Revised);
- Clarified in paragraph A9 that references to the engaging party include multiple engaging parties when relevant;
- Added a reference to “(if relevant, other parties)” in the definitions (para. 13(a) and 13(b)), the terms of engagement (para. 22(e)(i) and 22(f) and Appendix 1), the AUP report (para. 30(e)(i) and 30(e)(ii) and Appendix 2);
- Added a requirement in paragraph 30(e)(iii) for the AUP report to include a statement that the responsible party is responsible for the subject matter of the AUP engagement and the information on which the AUP are performed. This paragraph is derived from paragraph 69(g) of ISAE 3000 (Revised);
- Added paragraph A8B to explain that, in some cases, the procedures may be agreed with intended users other than the engaging party and that intended users other than the engaging party may also acknowledge the appropriateness of the procedures; and
- Amended the illustrative AUP reports to show AUP reports for the following circumstances:
  - Illustration 1 - The engaging party is the addressee and the intended user. The engaging party is not the responsible party. This circumstance arises if, for example, the regulator
is the engaging party and intended user, and the entity overseen by the regulator is the responsible party;

- Illustration 2 - The engaging party is the responsible party. The intended user, who is different from the engaging party, is the addressee. This circumstance arises if, for example, the regulator is the intended user and the entity overseen by the regulator is the engaging party and responsible party.

Matters for IAASB Consideration

The matters set out in this paper, including the questions posed below, will be covered as part of the Task Force’s discussion of **Agenda Item 4-A**.

1. The IAASB is asked for its views on the revised requirements, definitions, application material and appendices, including whether the Board agrees with the Task Force’s proposals on:
   - Professional judgment as set out in paragraphs 18 and A14-A16 of proposed ISRS 4400 (Revised); and
   - Independence as described in paragraphs 26-34 of this paper.

2. The Board is asked whether there are any other matters that the Task Force should consider as it finalizes proposed ISRS 4400 (Revised)?

Section 7: Due Process Matters

Significant Matters Identified by the Task Force

93. In the Task Force’s view, the significant matters it has identified as a result of its deliberations since the beginning of this project, and its conclusions and recommendations thereon, have been reflected in the agenda material presented to the IAASB at its meetings. In the Task Force’s view, there are no significant matters discussed in the course of this project that have not been brought to the IAASB’s attention.

Consideration of the Need for Re-Exposure

94. The Task Force considered whether re-exposure is needed. In the Task Force’s view, based on the draft that is presented to the Board for the December 2019 meeting, re-exposure is not necessary. **Agenda Item 4-C** presents the Task Force’s analysis of the provisions of due process related to whether an approved ISRS needs to be re-exposed and its conclusion, along with other background material that may assist the Board in coming to a view on re-exposure. **Agenda Item 4-D** shows a comparison of ED-4400 and **Agenda Item 4-B**.

Section 8: Implementation Support

95. Based on the Board’s discussions at the August 2019 teleconference and offline comments provided by members, the Task Force has identified the following materials to be considered for implementation support guidance:
• Comparison of AUP engagements to assurance engagements presented to the Board at the August 2019 teleconference (with amendments to address comments received on the comparison); and
• Guidance on transitional matters as discussed in section 4 of this paper.

The Task Force contemplates including the above material in implementation support guidance such as ‘At a Glance.’
Appendix 1

Task Force Members and Details of Meetings & Outreach

The following sets out the activities of the Task Force, including outreach with others relating to the ISRS 4400 revision project, since the August 2019 IAASB teleconference.

Task Force Members
1. The Task Force consists of the following members:
   - Eric Turner – Chair
   - Isabelle Tracq-Sengeissen
   - Roger Simnett
   - Viviene Bauer

Task Force Activities since the August 2019 IAASB Teleconference
2. The Task Force held two in-person meetings (in September and October) and one teleconference call.

Outreach
3. The task Force’s Chair provided an update to the IAASB’s Consultative Advisory Group in September 2019.
4. IAASB staff provided an update to the Small and Medium Practices Committee meeting in October 2019.
Appendix 2

Extract From IAASB Minutes – June 2019 IAASB Meeting

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

BACKGROUND

Mr. Turner, Chair of the AUP Task Force, provided an overview of the responses to Exposure Draft ISRS 4400 (Revised) (ED–4400). In response to the comments received from respondents, and the AUP Task Force’s initial proposals for moving forward the Board made the following observations.

PROFESSIONAL JUDGEMENT

Although the Board agreed that no professional judgment is exercised when performing or executing the actual ‘agreed-upon procedures,’ the Board emphasized that the Standard should acknowledge that the practitioner still applies relevant training, knowledge and experience throughout the engagement.

The Board cautioned against introducing extensive introductory paragraphs to explain the differences between AUP engagements and assurance engagements. Concerns were expressed that such introductory paragraphs may create confusion for practitioners who do not perform assurance engagements.

INDEPENDENCE

Subject to local laws, regulations or ethical requirements that may be more restrictive, the Board agreed to not include a precondition for the practitioner to be independent when performing AUP engagements. The Board also agreed to not require the practitioner to determine independence, considering that there is not a recognized framework to measure independence in the context of ISRS engagements. In reaching its decisions:

- The Board discussed alternatives for disclosures about independence in the AUP report. While Board views were mixed, the balance of views supported simplified or limited disclosures where the practitioner is not required to be independent and has therefore not made an evaluation of independence. Under these circumstances, the same disclosures would apply irrespective of whether the practitioner knows or does not know whether the practitioner is independent.

- The Board supported the proposal to explore how transparency regarding the practitioner’s objectivity could be enhanced in the AUP report. The Board noted that enhanced transparency on objectivity may help mitigate the ‘expectation gap’ resulting from intended users expecting the practitioner to be independent.

FINDINGS

The Board agreed with the AUP Task Force’s proposal to retain the use of the term ‘findings’ and to require an explanation of this term in the engagement letter and the AUP report.
ENGAGEMENT ACCEPTANCE AND CONTINUANCE

The Board agreed that the engagement acceptance and continuance conditions should include consideration of how the concept of ‘rational purpose’ included in ISAE 3000 (Revised)\(^\text{12}\) might be adapted for AUP engagements, such as whether the procedures are ‘neutral’ – i.e., the procedures selected are free from bias.

On emphasizing the iterative process of agreeing and performing the procedures, a member suggested that the practitioner should be required to obtain the engaging party’s acknowledgement that the procedures to be performed are appropriate prior to the completion of the engagement.

PRACTITIONER’S EXPERT

The Board agreed with the AUP Task Force’s proposal on neither requiring nor prohibiting a reference to the use of the practitioner’s expert in the AUP report.

AUP REPORT

The Board supported the proposal to not require the practitioner to include a ‘restriction of use’ paragraph in the AUP report. However, a few members suggested that the AUP Task Force should consider including guidance on when the practitioner may wish to restrict the AUP report (for example, if the AUP report contains confidential information or if there is an elevated risk of users misinterpreting the findings).

OTHER MATTERS

Although the Board supported the proposal to require the practitioner to consider whether written representations should be requested, the Board disagreed with the suggestion to include application material to explain that ‘written representations are not generally required’ in AUP engagements, noting that this may appear to contradict the requirement.

The Board supported the proposal to enhance the linkages to the practitioner’s responsibilities pertaining to fraud and non-compliance as set out in relevant ethical requirements. One member suggested that the standard should specifically require the practitioner to respond to fraud or non-compliance with laws or regulations during the AUP engagement.

EFFECTIVE DATE

The Board expressed mixed views in discussing the merits of basing the effective date on either the AUP report date or the date when the engagement was agreed to. If based on the latter, some Board members expressed concern that there may be a significant delay in implementing the new standard when the terms of an existing engagement cover multiple periods. Accordingly, in further considering the basis of the effective date, the Board agreed that the application material should provide guidance on transitional requirements to avoid an unreasonable delay in implementing the standard.

\(^{12}\) International Standards on Assurance Engagements (ISRE) 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information
IAASB CAG CHAIR REMARKS

Mr. Dalkin noted his continuing support for the project and the proposals by the AUP Task Force. In relation to independence, Mr. Dalkin noted the importance of independence from a public sector perspective, and accordingly, he supported independence disclosures in the AUP report.

PIOB OBSERVER REMARKS

Prof. Van Hulle noted that it is reasonable to conclude that some form of 'judgment' would be exercised during an AUP engagement. Therefore, if the IAASB retains the view that no professional judgment is exercised during the performance of agreed upon procedures, the standard should explain what this means.

On the issue of independence, Prof. Van Hulle emphasized the importance of independence disclosures in the AUP report from a transparency and public interest perspective.
Appendix 2A

Extract From IAASB Minutes – August 27, 2019 Teleconference

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

BACKGROUND

Mr. Turner noted that the focus of the teleconference was to consider key proposals in relation to professional judgment and independence during the performance of Agreed Upon-Procedures (AUP) engagements.

PROFESSIONAL JUDGMENT

The Board broadly agreed with the intent of the Task Force to clarify that the practitioner exercises limited professional judgment when performing or executing the actual procedures during an AUP engagement. However, some members of the Board noted their disagreement with the proposed wording of paragraph 18, including the related application material, which suggests that professional judgment is ‘suspended’ or ‘prohibited’ when performing such procedures. The relevant Board members expressed concern that this notion appears unreasonable in the context of an engagement performed by a professional accountant. In addition, the Board expressed concern with specific wording or terminology that were proposed in the application material:

- Paragraph A14: ‘As there are no alternative courses of action in performing the agreed-upon procedures...’ (emphasis added). Some Board members questioned whether this statement is appropriate, noting that, for example, any procedure is likely to at least have two outcomes, or different scenarios may be encountered during the performance of a procedure.

- Paragraph A14: ‘...the performance of agreed upon-procedures requires no professional judgment. However, the practitioner applies relevant training, knowledge and experience throughout the agreed-upon procedures engagement.’ The Board expressed concern that the two sentences appear to be in conflict, as the concepts of ‘relevant training, knowledge and experience’ is part of the definition of professional judgment.

The Board expressed its support to retain the guidance that was prepared to explain the differences between AUP engagements and assurance engagements. However, mixed views were expressed as to whether this material should be included in an appendix within the standard, or alternatively, in non-authoritative guidance. Some Board members also provided editorial suggestions.

INDEPENDENCE - PRECONDITION

The Board considered the Task Force’s proposal requiring the practitioner to discuss with the engaging party whether independence may be appropriate in the circumstances of the engagement. Although the views expressed were mixed, the Board highlighted the following concerns:

- The proposed requirement is not practicable as there are no generally accepted criteria to determine or measure independence against.

13 Proposed wording of paragraph 18: ‘The practitioner shall apply professional judgment in an agreed upon procedures engagement except in the performance of the procedures as agreed upon in the terms of the engagement’
Under this proposal, the decision of whether independence may be appropriate rests with the engaging party. The Board questioned whether the engaging party may always be sufficiently knowledgeable to make such a determination. Moreover, there is no obligation on the practitioner to determine whether independence may be appropriate.

Some Board members expressed concern with the proposed wording of paragraph A19b, noting that it may imply that independence would always be appropriate for an agreed-upon procedures engagement when it is performed by a practitioner who has performed assurance engagements for the engaging party.14

INDEPENDENCE - DISCLOSURE

In circumstances when the practitioner is not required to be independent, the Board agreed with the proposal to require ‘limited’ disclosures, i.e., stating that the practitioner is not required to be independent and accordingly, makes no assertion regarding independence. However, some Board members expressed concern that the latter part of the statement about not making an assertion regarding independence could be confusing and potentially misleading. Furthermore, some Board members questioned whether the disclosures are appropriate in circumstances where the practitioner has in fact determined independence, or alternatively, is aware that particular independence requirements may not be complied with.

Some Board members questioned whether it is appropriate to reference ‘objectivity’ in the practitioner’s report when it only represents one of the elements of the fundamental principles of the International Code of Ethics for Professional Accountants (the Code) of the International Ethics Standards Board for Accountants (IESBA). In addition, some Board members expressed concern that the absence of specific or proposed wording may lead to inconsistency in practice, while recognizing that objectivity is not necessarily defined in the same manner in all jurisdictions.

In progressing the standard, the Board asked the Task Force to continue its coordination efforts with IESBA in relation to independence, as appropriate.

IAASB CAG CHAIR’S REMARKS

Mr. Dalkin acknowledged the intricacies around the introduction of independence requirements, specifically recognizing that there is no recognized framework to measure or determine independence for such engagements. As a possible solution, Mr. Dalkin suggested that the IAASB may wish to reconsider its position by requiring independence as a precondition for AUP engagements (as is the case in the United States regulatory environment). In doing so, coordination efforts with IESBA could result in a suitable criteria or framework for independence purposes.

PIOB OBSERVER REMARKS

Mr. Grund emphasized that a statement to the effect that ‘the practitioner has not assessed independence’ is not helpful and is not in the public interest. Mr. Grund further highlighted the importance of transparency in relation to disclosures as to whether the practitioner is, or is not, independent.

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14 Proposed wording of paragraph A19b of the Standard, as included in the Issues Paper