

## **Agreed-upon Procedures Engagements— Final IAASB Task Force Proposals Relating to Independence**

### **Background**

1. In September 2017, the International Auditing and Assurance Standards Board (IAASB) approved a [project proposal](#) to revise extant ISRS 4400.<sup>1</sup> The revision of extant ISRS 4400 includes redrafting the standard in accordance with the IAASB's clarity convention.
2. The IAASB approved for exposure proposed ISRS 4400 (Revised) in September 2018. As part of the finalization of the Exposure Draft (ISRS 4400 ED), the IESBA Liaison to IAASB and IESBA Staff (IESBA representatives) provided feedback on the draft text of the ED as well as the related Explanatory Memorandum regarding how certain independence-related matters were addressed.
3. The IAASB released the ED, [Agreed-Upon Procedures Engagements](#) on November 17, 2018, inviting public comment by March 15, 2019. ISRS 4400 ED proposed to enhance key concepts relevant to an agreed-upon procedures (AUP) engagement, including new requirements and application material on disclosures in the AUP report relating to the practitioner's independence (or lack thereof).

### **Responses to ISRS 4400 ED in Relation to Independence Matters**

4. Consistent with the approach explained in ISRS 4400 ED, a substantial body of respondents agreed that there should not be a precondition for the practitioner to be independent when performing an AUP engagement even though the practitioner is required to be objective.
5. Most of the respondents agreed with the enhanced transparency proposal in terms of *disclosing 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.

### **IAASB Task Force's Proposed Way Forward**

#### *Precondition for, and Determination of, Independence*

6. The IAASB Task Force has proposed that the revised ISRS 4400 not include a precondition for the practitioner to be independent when performing an AUP engagement or a requirement for the practitioner to determine independence. The Code does not require a practitioner performing non-assurance engagements such as AUP engagements to be independent. Accordingly, including a precondition for independence in the ISRS 4400 ED would result in inconsistency with the Code.

#### *Disclosure*

7. The IAASB Task Force recognizes that there may be instances where the practitioner may be required to be independent, for example, by the terms of the engagement or by relevant ethical requirements applicable in a particular jurisdiction.
8. Should the practitioner and engaging party agree that the practitioner must comply with independence

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<sup>1</sup> ISRS 4400, *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*

requirements, the IAASB Task Force proposed that an independence framework has to be agreed upon in the terms of the engagement. Therefore, a practitioner can only claim compliance with independence requirements in the practitioner's report, even though independence is not a precondition, if a framework was agreed upon in the engagement letter.

9. To that effect, the IAASB Task Force is proposing the following disclosure requirement in the audit report (Para 30 (j) of the [final draft](#) of ISRS 4400 (Revised)):

***The Agreed-Upon Procedures Report***

30. *The agreed-upon procedures report shall be in writing and shall include: (Ref: Para. A36B)*

...

(j) *With respect to independence:*

- (i) *If the practitioner is not required to be independent and has not otherwise agreed in the terms of engagement to comply with independence requirements, a statement that there are no independence requirements with which the practitioner is required to comply; or*
- (ii) *If the practitioner is required to be independent or has agreed in the terms of engagement to comply with independence requirements, a statement that the practitioner has complied with the relevant independence requirements. The statement shall identify the relevant independence requirements;*

***IESBA Representatives' Views***

10. The IESBA representatives had the opportunity to provide input to the IAASB Task Force's near-final proposals in the period leading up to the December IAASB and IESBA meetings in relation to the considerations pertaining to independence.
11. The IESBA representatives are in agreement with the IAASB Task Force's final proposals as articulated above on the aspect of disclosure relating to independence. These proposals are consistent with the fact that the Code does not prescribe independence requirements for an AUP engagement and if there is to be an assertion of independence for disclosure purposes, there needs to be a benchmark against which to make such assertion. Regardless of any disclosure relating to independence, practitioners are required to comply with all the fundamental principles in the Code (objectivity, etc.).

**Matter for IESBA Consideration**

1. IESBA members are asked if they have any fundamental concerns with the IAASB Task Force's proposed changes to ISRS 4400 (*Revised*) as explained in the Appendix insofar as they relate to independence.

## Appendix

[Extract from IAASB's [December 2019 Issues Paper Agenda Item 4](#)]

### Section 3: Independence

#### Precondition – Background and Views Expressed by the Board

##### *Background*

1. 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*

2. 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.
3. 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.
4. 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?
- 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*

5. 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.
6. 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*

7. 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**

8. 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*

9. 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*

10. 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*

11. 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.
12. 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*

13. 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.
14. 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 straight forward.

15. 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.

	<b>Is the practitioner required to be independent, or has the practitioner agreed in the terms of engagement, to comply with independence requirements?</b>	
	<b>Yes</b>	<b>No</b>
<b>Practitioner has not determined compliance with independence requirements</b>	Not Applicable	Statement that there are no independence requirements with which the practitioner is required to comply. <sup>2</sup>
<b>Practitioner has determined compliance with independence requirements</b>	Statement that the practitioner has complied with the relevant independence requirements and a statement identifying the relevant independence requirements.	Not Applicable

<sup>2</sup> IESBA has agreed with this wording.

Overview of the Proposed Binary Approach

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

