

15 March 2019

To: Professor Arnold Schilder
The Chairman
International Auditing and Assurance Standards Board
529 5th Avenue 6th Floor
New York 10017
United States of America

Submission via IAASB website

Submission on IAASB's Exposure Draft of ISRS 4400 Agreed-Upon Procedures Engagements (ED-4400)

This submission is made jointly by Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA) under our strategic alliance.

ACCA and CA ANZ created a strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 800,000 current and next generation accounting professionals across 180 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of members and students, sharing a commitment to uphold the highest ethical, professional and technical standards. More information about ACCA and CA ANZ is contained in Appendix A.

We therefore support the IAASB's project to update the international standard on agreed-upon procedures engagements and appreciate the opportunity to comment on the reform proposals contained in the Exposure Draft of ISRS 4400 ("ED-4400").

We are also pleased to be able to provide overall support for the draft, considering that it will provide the material needed to better support the increasing use of these engagements around the world.

However, we do have some specific issues to raise where we feel the revisions would benefit from greater clarity. Comments on these issues as well as our responses to the specific questions raised in ED-4400 follow in Appendix B.

Yours sincerely

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Appendix A

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 121,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

About ACCA

ACCA is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its 208,000 members and over 503,000 students in 179 countries, helping them to develop successful careers in accounting and business, with the skills required by employers.

ACCA works through a network of 104 offices and centres and more than 7,300 Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

The expertise of our senior members and in-house technical experts allows ACCA to provide informed opinion on a range of financial, regulatory, public sector and business areas, including: taxation (business and personal); small business; audit; pensions; education; corporate governance and corporate social responsibility.

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Appendix B

Overall Question

Public Interest Issues Addressed in ED-4400

1) Has ED-4400 been appropriately clarified and modernized to respond to the needs of stakeholders and address public interest issues?

We agree that ED-4400 is a significant improvement over its predecessor, addressing key concerns and deficiencies with the current standard that have become apparent as the use of agreed-upon procedures (AUP) engagements has grown worldwide. Its improvements better explain the nature and purpose of these engagements, appropriately widen its scope to non-financial information, clarify professional obligations, clarify terminology and provide useful examples. We believe all these changes will greatly assist our members perform these engagements as well as being able to guide clients and regulators in their development and use.

However we believe there are still some public interest issues where the requirements need further clarification. These concern the requirements surrounding the exercise of professional judgement (question 2), the use of experts (question 7) and the reporting processes (see questions 8 and 9).

To further benefit the public interest, we would also encourage the board to continue its education work on this topic once this revised standard is released. The standard has already identified, and appropriately accommodated, the difficulties that specific legislative wording currently pose. We therefore recommend the development of resources that would support national professional bodies and national standard setters to engage with their regulators and policy makers to ensure the differences between AUPs and other assurance engagements are better understood.

Specific Questions

Professional Judgment

2) Do the definition, requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role professional judgment plays in an AUP engagement?

We agree with the board's view that professional judgement does have a role to play in many aspects of an AUP engagement. We also believe ED-4400 now makes it clearer in what circumstances of an AUP engagement it is appropriate to exercise that judgement.

However, the use of the term "conduct" when referring to the phases of an AUP engagement other than acceptance/continuance may be confused as referring to the actual performance of the procedures. We therefore consider that the guidance supporting paragraph 18 be tightened to specifically note when it is inappropriate to apply professional judgment. We recommend these circumstances include:

- determining the sufficiency of procedures;
- performance of the procedures;
- making decisions about the quality or adequacy of evidence; and
- presenting the factual findings (ie report only the facts, not extrapolations, estimates or other evaluations based on the facts).

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For clarity, this should be done in the same way as the appropriate applications of professional judgement are presented in paragraph A15.

Paragraph A16 can then be used, as it currently is, to explain why these distinctions are being drawn. However the final sentence of paragraph A16 should be removed as it impairs the clarity that is needed around AUP procedures (ones that require no judgement).

We also consider that, given the importance of this topic, some additional wording is required to ensure that members document where and why they have (appropriately) exercised professional judgment, especially in the engagement acceptance and continuance decision making process. This could be done by including an additional subsection in paragraph 34 regarding documenting evidence of compliance with the standard which specifically identifies the appropriate exercise of professional judgement as a matter to be addressed (see question 11).

Practitioner's Objectivity and Independence

3) Do you agree with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)? If not, under what circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the IAASB would discuss the relevant independence considerations with the IESBA?

We agree that independence is not a necessary requirement of an AUP engagement and should only be included if it is required by users. In our view, including independence requirements would unnecessarily restrict the services SMPs can provide for no benefit.

However, for your information, we note that established practice in Australia under its existing standard [ASRS 4400 Agreed-Upon Procedures Engagements To Report Factual Findings](#) does require independence. Its requirements include that the practitioner “comply with ethical requirements equivalent to those applicable to “other assurance engagements” (the former section 291 in the International Code of Ethics), including independence unless the engaging party has specifically agreed to modified independence requirements in the terms of engagement.” (ASRS 4400, paragraph 17). Jurisdictionally consistent requirements are contained in paragraph 16 of the recently revised New Zealand standard [APS-1 \(Revised\) Agreed-Upon Procedures Engagements To Report Factual Findings](#) which came into force from 1 January 2019.

An independence requirement in both jurisdictions is well supported by our members. Its application is believed to add valuable credibility to the engagement and is not considered to be onerous because many AUP engagements are performed on audit clients and so users and practitioners are already familiar with the requirements.

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- 4) **What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the Explanatory Memorandum, and the related requirements and application material in ED-4400? Do you believe that the practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.**

We believe that the disclosures proposed by the standard are adequate.

We do not believe that a practitioner should be required to make an independence determination when they are not required to be independent. Such a determination involves the practitioner in unnecessary work which serves no purpose. A comment that the engagement is not subject to independence requirements should be sufficient to guide users of the report in this matter.

Findings

- 5) **Do you agree with the term “findings” and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED-4400?**

We prefer the use of the term “factual findings” in the revised standard as we do not agree that the word “findings” as it is used in the English language is sufficiently restrictive to ensure that only facts are sought and reported on in an AUP engagement. Dictionary definitions of the term “findings” allow it to be synonymous with conclusions, and the result of legal deliberations (opinions and judgements).

If the IAASB wishes to retain “findings” then, in addition to the existing definition, we believe it would be beneficial to draw attention to the fundamental importance of considering the nuances of the wording choice in both the engagement letter and report. That way practitioners are made aware of, and consider the risk of, possible confusion with the general use of the term in their jurisdiction and so will choose the term that is most clear for their jurisdiction.

Engagement Acceptance and Continuance

- 6) **Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED-4400, appropriate?**

We agree with the current requirements but consider they are deficient in not requiring the practitioner to:

- Assess and document their competence and capability to conduct the engagement, particularly where non-financial information is involved. This is particularly necessary if the broader term of “practitioner” rather than “assurance practitioner” is to be used in the application clause.
- Identify the need for any experts and assess the skills and competence of those experts before accepting the engagement (see question 7 below).
- Consider if there are likely to be any issues regarding access to the information and resources needed to perform the engagement (see question 11 below).

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Practitioner's Expert

- 7) **Do you agree with the proposed requirements and application material on the use of a practitioner's expert in paragraphs 28 and A35-A36 of ED-4400, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED-4400?**

We agree that the provisions regarding the use of an expert are a practical response to the potential need to engage different expertise, especially when AUPs deal with non-financial information. However we do not consider that ED-4400 makes it sufficiently clear that the expert's work and report must be fact-based, in exactly the same way as is required for the practitioner. The practitioner needs to ensure that they are only making use of the expert's expertise and knowledge, not any professional judgment on their part. Therefore we recommend the inclusion of a new subsection in paragraph 28 specifically addressing this issue.

Additional guidance about objective and scientific facts, such as that included in Appendix 1 of the Australian Accounting Professional and Ethical Standard Board's [APES 215 Forensic Accounting Services](#) may be of additional assistance.

We also note that, if the engagement is to involve an expert, then this assessment of competence should occur prior to engagement acceptance and the need for the expert's involvement included in the engagement letter.

The performance of the engagement should then include an assessment and documentation of how this competence was demonstrated and used. Given this, these paragraphs should be cross-referenced to the engagement acceptance and continuance section (the assessment phase) and the reporting phase (evaluation).

AUP Report

- 8) **Do you agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?**

We agree that the report should not be required to be restricted but that the standard should allow for this if the practitioner views it as necessary.

To this end the guidance in paragraph A43 of ED-4400 is sufficient for this purpose, subject to an amendment to the final sentence. In light of modern technology, effectively restricting "distribution" is difficult, especially where these reports are placed online. However it is possible to restrict "use" to specified parties and so the final sentence should only refer to "use".

It would also be beneficial to provide additional guidance that explains the implications of involving users other than the engaging party in the reporting process. The possibility of this is acknowledged in paragraph A9, but not further addressed in the examples (see our comments in question 9).

However, for your information, we note that established practice in Australia under ASRS 4400, and now in New Zealand under APS-1 (Revised) is for report restrictions to be commonly applied for professional indemnity reasons and consistent with the requirements of those standards concerning independence (see question 3). ASRS 4400 states in paragraph 42 that "the report shall be restricted to those parties who have either agreed to the procedures to be performed or

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who have been specifically included as intended users in the engagement letter since others, unaware of the reasons for the procedures may misinterpret the results". Identical wording is included in APS-1 (Revised) at paragraph 41.

9) Do you support the content and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 2 of ED-4400? What do you believe should be added or changed, if anything?

We believe the following additional information should be required in the report:

- Identification of the purpose of the engagement as this is crucial information for the understanding of the report, especially if the report is not being restricted.
- An explanation if procedures that were agreed upon were not able to be completed and why.
- Identification of, and a statement of compliance with, the applicable Code of Ethics, since it is these professional qualities, rather than independence, that are being relied on by the engaging party (hence compliance with them is a requirement of paragraph 17 of the standard).

The report should be restructured to move the detail about the purpose of the engagement (paragraph 2 of the illustrative report) to the beginning as this is the key information. The compliance related information, while important, should be included further down, consistent with the structure adopted by the new format audit reports.

We are also of the view that the example reports do not adequately address the potential impact of addressees other than the engaging party as envisaged in A9, since both assume these parties are the same. We consider that the second example should allow for and provide an example of this difference.

Request for General Comments

10) In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:

- a) **Translations**—recognizing that many respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-4400.

Other than our comments on “findings” earlier, we have not identified any additional issues.

- b) **Effective Date**—Recognizing that ED-4400 is a substantive revision and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for AUP engagements for which the terms of engagement are agreed approximately 18–24 months after the approval of the final ISRS. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISRS. Respondents are also asked to comment on whether a shorter period between the approval of the final ISRS and the effective date is practicable.

We believe that an 18–24 month implementation period is practical and appropriate. In New Zealand, any shorter period would present implementation challenges because the New Zealand Auditing and Assurance Standards Board (NZAuASB) is currently working toward a revised



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mandate that will allow it to become the New Zealand standard setter for AUP engagements. Currently this role is being performed by the New Zealand Regulatory Board of CA ANZ who released APS-1 (Revised) in 2018 under its residual standard setting mandate for these types of engagements. The necessary legislative amendments have been prepared and tabled in Parliament but as yet there is no time frame for their completion. However we would expect that an 18–24 month window would provide sufficient time for that change to be made and for the NZAuASB to expose and adopt a revised standard.

11) Other specific matters

In addition to the above specific matters for which comment was sought by the board, we would also like to raise the following concerns:

1. Written representations

We agree that it is generally unnecessary for an AUP engagement to require representations from the engaging party. The key representations a practitioner is relying on are that:

- the engaging party has considered the purpose of the engagement and the needs of identified users, which is already required in the engagement letter requirements (paragraphs 22(b) and (c)); and
- the subject of the engagement will provide access to the records, staff and other information that the practitioner needs to perform the required procedures (inherent in paragraph 22(e)).

We therefore consider that including paragraph 27 to cover this eventuality is only likely to cause confusion. We would prefer that this paragraph (and paragraph A34) is removed and a new subparagraph is inserted into the engagement acceptance and continuance section as per our response to question 6. Further clarity on this matter could be provided in the guidance associated with the terms of engagement.

2. Documentation requirements

These should be expanded to include recording of how the practitioner satisfied the requirements regarding:

- the maintenance of quality control;
- adherence to the applicable ethical requirements (see our response to question 9); and
- the exercise of professional judgement (see our response to question 2).

This could be achieved via a requirement to document compliance with all aspects of the standard and particularly cite these examples.