Proposed ISRS 4400 (Revised)¹—Issues and Recommendations

Objective of Agenda Item

The objective of this agenda item is to:

(a) Obtain IAAASB views on the Exposure Draft of proposed ISRS 4400 (Revised); and
(b) Approve the Exposure Draft of proposed ISRS 4400 for public consultation.

Section 1: Introduction and Overview of Agenda Items

1. Since the March 2018 IAASB meeting and the August 2018 IAASB teleconference, the Agreed-Upon Procedures (AUP) Task Force (the ‘Task Force’) has focused on addressing comments received from Board members (during the meeting, teleconference and offline) 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 public interest considerations and significant issues raised by Board members were deliberated and addressed by the Task Force.

2. This paper is set out as follows:

- Section 2 – Describes the public interest considerations as included in the project proposal and how these have been addressed by the Task Force.
- Section 3 – Describes the overarching considerations related to the revisions to ISRS 4400 (Revised) as a whole.
- Section 4 – Provides an explanation of the substantial changes that have been made since the March 2018 meeting and the August 2018 teleconference, and the Task Force’s considerations about various matters raised for further discussion, including:
  - Definitions;
  - Relevant ethical requirements;
  - Professional judgment;
  - Engagement acceptance and continuance;
  - Performing the agreed-upon procedures engagement;
  - Using the work of a practitioner’s expert;
  - The agreed-upon procedures report; and
  - Documentation.
- Section 5 – Describes the Task Force’s views on matters for inclusion in the Explanatory Memorandum, the exposure period, effective date and other due process matters.

¹ Proposed ISRS 4400 (Revised), Agreed-Upon Procedures Engagements
3. In addition to this paper, the Task Force has developed the following agenda papers for discussion at the September 2018 IAASB meeting:

- **Agenda Item 5-A**: ED of proposed ISRS 4400 (Revised) – Requirements (Marked from March 2018 and August 2018);
- **Agenda Item 5-B**: ED of proposed ISRS 4400 (Revised) – Application and other explanatory material (Marked from March 2018 and August 2018);
- **Agenda Item 5-C**: ED of proposed ISRS 4400 (Revised) – Requirements (Clean);
- **Agenda Item 5-D**: ED of proposed ISRS 4400 (Revised) – Application and other explanatory material (Clean); and
- **Supplement to Agenda Item 5**: Mapping document of extant ISRS 4400 to proposed ISRS 4400 (Revised)

4. At the Board meeting, the Task Force Chair will discuss the agenda items in the following order:

- The overarching issue as set out in Section 3 of this paper;
- Draft of proposed ISRS 4400 (Revised) – the Task Force Chair will use Section 4 of this paper, and **Agenda Item 5-A** and **Agenda Item 5-B** as the basis for the discussion. The requirements and application material will be discussed together; and
- The other matters as set out in Section 5 of this paper.

5. The Task Force activities since the March 2018 IAASB meeting are summarized in Appendix 1. An extract from the minutes of the March 2018 IAASB meeting related to AUP Engagements and the draft minutes of the August 2018 IAASB teleconference are included in Appendix 2 and 3, respectively.

**Section 2: Public Interest Considerations**

6. The following table outlines the key public interest considerations and the relevant paragraphs in proposed ISRS 4400 (Revised) that address these considerations.

<table>
<thead>
<tr>
<th>Key Public Interest Matter²</th>
<th>Description of Changes made to address identified issues</th>
<th>Relevant paragraphs in Proposed Draft</th>
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<tbody>
<tr>
<td>Users of AUP reports and other stakeholders have identified an urgent need to clarify, enhance and modernize ISRS 4400. The clarification, enhancement and modernization of ISRS 4400 serves the public interest by: Responding to the needs of the</td>
<td>Broadened scope to include both financial information and non-financial information. Added examples of AUP engagements that satisfy users, such as regulators and others. Explanation that the term “information” encompasses all</td>
<td>Paragraph 2 and A1 and A1A.</td>
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| IAASB’s stakeholders— Updating ISRS 4400 to better meet the needs of users, such as regulators, funding bodies and creditors, for increased accountability around the use of grants that are often provided from public funds, and facilitating innovation and enhancing services available to entities of all sizes (and to SMEs in particular). For example, in some economies, the role of the state in providing services such as welfare or investment incentives, is linked to demands for accountability related to the provision of such interventions, which could be addressed (in part) through AUP engagements. | matters on which AUP are performed. | Paragraph 19 and A15-A17.  
Modernized ISRS 4400 (Revised) by adding requirements dealing with the role that professional judgment plays in an AUP engagement. Added application material that identifies areas in which professional judgment is applied.  
Enhanced explanations of what distinguishes assurance engagements and AUP engagements.  
Enhanced requirements dealing with compliance with laws and regulations and fraud. |  Paragraphs 4-6 and A17  
Paragraphs 7  
Paragraphs 21(b) and A24 – A27  
Paragraph 29 (f) |
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<td>Providing clarity in the AUP report—Enhancing the report for clearer, more consistent language which will help clarify what was done and the results therefrom, thereby reducing confusion that may arise in practice about AUP engagements.</td>
<td>Enhanced requirements and application material on ensuring language used is clearer and more consistent to reduce confusion by explaining that procedures and findings are described objectively, in terms that are clear, not misleading and not subject to varying interpretations. Adding a requirement that the AUP report include a statement on the independence of the practitioner and refereeing to the ethical requirements followed.</td>
<td>Paragraph 29 (f)</td>
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<td>Reducing inconsistency in the performance of AUP engagements—redrafting using the clarity drafting conventions and other changes for clarification and enhancement</td>
<td>Clarity drafting conventions adopted for proposed ISRS 4400 (Revised). Among other matters, this comprised:</td>
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<tr>
<td>- Adding a clear description of what an AUP engagement is and the value it provides.</td>
<td>Paragraph 4-6</td>
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<td>- Setting an objective and establishing the practitioner’s obligation on relation to that objective.</td>
<td>Paragraph 13</td>
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<td>- Clarifying the obligations imposed on practitioners by the requirements of proposed ISRS 4400 (Revised)</td>
<td>Paragraphs 8-11</td>
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<td>- Eliminating any possible ambiguity about the requirements a practitioner needs to fulfil</td>
<td>Paragraphs 1- 33 and A1-A47</td>
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<td>- Improving the overall readability and understandability of proposed ISRS 4400 (Revised)</td>
<td>Paragraphs 1- 33 and A1-A47</td>
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**Section 3: Overarching Considerations**

**References to Quality Control**

7. There are three projects to revise the Quality Control standards underway – proposed ISQC 1\(^3\), ISQC 2\(^4\) and ISA 220.\(^5\) The exposure drafts on these projects are expected to be approved at the December 2018 IAASB meeting.

8. Paragraphs 3, 20, A2-A7 and A19-A21 of proposed ISRS 4400 (Revised) deal with quality control. These paragraphs are replicated from ISRS 4410 (Revised).\(^6\) The Task Force is aware that many of these paragraphs do not reflect the most updated wording and concepts being developed in the Quality Control projects (for example, use of the term “quality management”).

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\(^3\) Proposed ISQC 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

\(^4\) Proposed ISQC 2, *Engagement Quality Control Reviews*

\(^5\) Proposed ISA 220, *Quality Control for an Audit of Financial Statements*

\(^6\) ISRS 4410 (Revised), *Compilation Engagements*
9. The Task Force had a teleconference with the Chair of the ISQC Task Force, Ms. Karin French, on July 16, 2018 to obtain her views on how to deal with quality control in the proposed draft. The discussion was very helpful in subsequent Task Force discussions. Ms. French indicated that she thought a placeholder (as described in Option 2 below) might be the approach to take.

10. The Task Force debated several options to address this issue:

   - Option 1: Redraft paragraphs 3, 20, A2-A7 and A19-A21 to reflect the most updated wording and concepts as set out in the ISQC 1 agenda papers presented at the September 2018 meeting.
   - Option 2: Remove paragraphs 3, 20, A2-A7 and A19-A21 from proposed ISRS 4400 (Revised). Include a discussion in the Explanatory Memorandum that requirements and application material on quality control will be added to ISRS 4400 (Revised) after the approval of ISQC 1.
   - Option 3: Replicate paragraphs 4, 23, A6-A11 and A25-A27 in ISRS 4410 (Revised) in ISRS 4400 (Revised). Include a discussion in the Explanatory Memorandum that requirements and application material on quality control will be updated after the approval of ISQC 1.

11. The Task Force agreed that Option 1 is not practicable. ISQC 1 is still under development and the wording in the current version of ISQC 1 may change. It may not be appropriate to include wording or concepts in proposed ISRS 4400 (Revised) that have not been debated by the Board.

12. The Task Force is amenable to either option 2 or 3 but prefers Option 3. Under Option 3, the effective date of ISRS 4400 (Revised) will not be contingent on revised ISQC 1 becoming effective. This is because ISRS 4400 (Revised) would have all the necessary requirements and application material based on extant ISQC 1. Option 3 would mitigate the risk of needing to re-expose the draft because a whole new section would not have been exposed for comment.

13. In addition, under Option 3, the requirements and application material related to quality control use wording lifted from existing ISRS 4410 (Revised). Using identical wording would facilitate the drafting of conforming amendments to both ISRS 4400 (Revised) and ISRS 4410 (Revised) when the revised ISQC 1 is finalized.

### Matters for IAASB Consideration

1. The Board is asked for its views on the Task Force’s proposed approach to address references to quality control in ISRS 4400 (Revised).

### Section 4: Explanation of Substantial Changes since the March 2018 Meeting and August 2018 Teleconference

#### Definitions

**Findings**

14. At the March 2018 meeting, the Board agreed with the use of the term “findings” to describe the results of the procedures performed in an AUP engagement. However, the Board directed the Task Force to consider further clarifications to the definition of “findings”; in particular, to address the following matters:
The first two sentences in the definition – “Findings are the factual results of procedures performed and are capable of being objectively verified” and “The findings in an AUP engagement report are described objectively…” seem unclear and repetitive.

In some jurisdictions, the term “findings” is used in national standards to refer to practitioner’s conclusions that go beyond factual statements (for example, in Germany). There may be a need to recognize that there may be a distinction between “findings” and “factual findings” in those jurisdictions.

The Task Force reconsidered the definition of findings and is of the view that the two elements of findings [capable of being (i) objectively verified and (ii) objectively described] are equally important. However, the Task Force agrees that the two conditions are not clearly set out in the definition as presented at the March 2018 meeting. To clarify the definition of findings, the Task Force has reworded the first two sentences in paragraph 14(f) to: “Findings are the factual results of procedures performed. Findings are capable of being objectively verified and objectively described…”

On the issue of the need to recognize the distinction between “findings” and “factual findings” in some jurisdictions, the Task Force considered including a statement in ISRS 4400 (Revised) along the lines of “the term ‘findings’ may be used in standards in some jurisdictions in a manner that is not restricted to factual results. In such cases, the term ‘findings’ may be replaced with ‘factual findings’ or similar terms.”

After deliberation, the Task Force concluded that including such a statement in ISRS 4400 (Revised) is not needed. The Board agreed to use the term “findings” instead of “factual findings” so as to avoid the implication that findings may be “non-factual.” Including a statement similar to the one contemplated in the preceding paragraph would be contrary to the Board’s efforts on clarifying that findings are the factual results of procedures performed. Further, the Task Force is of the view that the need to distinguish “findings” and “factual findings” is a jurisdiction-specific matter. The jurisdiction can translate the term “findings” as “factual findings” if necessary in their language to convey the appropriate meaning. The Task Force proposes to include a discussion of this matter in the Explanatory Memorandum to the ED.

Other Definitions

The Task Force received numerous offline wording suggestions or new definitions. The Task Force made changes to, or added, definitions if the changes or additions are intended to address matters unique to ISRS 4400 (Revised), or are agreed with the International Ethics Standards Board for Accountants (IESBA) member responsible for coordination with the IAASB, Ms. Sylvie Soulier. To that end, the Task Force:

- Added a new definition for agreed-upon procedures engagement in paragraph 14(b);
- Added a reference to the engaging party acknowledging the appropriateness of the procedures for the purpose of the engagement in paragraph 14(c); and
- Made minor changes to the definition of relevant ethical requirements in paragraph 14(i).

The Task Force also carefully considered other suggested changes provided offline but ultimately decided not to make the suggested changes. These suggested changes are primarily to definitions derived from ISAE 3000. In the absence of matters unique to ISRS 4400 (Revised), the Task Force proposes to retain the wording of the definitions to maintain consistency between IAASB standards.
Relevant Ethical Requirements

Practitioner’s Independence

20. The issue of the practitioner’s objectivity and independence is of important public interest as it has an impact on the quality of the engagement. At the August 2018 teleconference, the Board generally agreed that, consistent with the IESBA *International Code of Ethics for Professional Accountants (Including the International Independence Standards)* (IESBA Code), a practitioner performing an AUP engagement is required to comply with the fundamental principle of objectivity but is not required to be independent. However, to enhance transparency, if the practitioner is not independent, the AUP report should include a statement to this effect. Some Board members further suggested that disclosure in the AUP report not be restricted to circumstances when the practitioner is not independent. That is, if the practitioner is independent, the AUP report should also include a statement to this effect.

21. A related issue is the criteria to be used for determining whether the practitioner is independent. At the August 2018 teleconference, the Task Force proposed that the criteria be Part 4B of the IESBA Code, *Independence for Assurance Engagements Other Than Audit or Review Engagements*, adapted as necessary for agreed-upon procedures engagements, or other professional, legal or regulatory requirements that are at least as demanding. Many Board members expressed some discomfort with this as it is not clear what the phrase “… adapted as necessary for AUP engagements, or other professional, legal or regulatory requirements that are at least as demanding” means, and the fact that the IESBA Code may not be used in some jurisdictions.

22. In response to comments received at the August 2018 teleconference, the Task Force has enhanced the requirements and application material pertaining to relevant ethical requirements to emphasize the key public interest benefits of objectivity and transparency:

- Paragraph A11 clarifies that the practitioner is required to comply with relevant ethical requirements, which comprise the IESBA Code related to related services engagements, together with national requirements that are more restrictive. The IESBA Code requires practitioners to comply with fundamental principles including objectivity, which requires practitioners not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others. Accordingly, relevant ethical requirements to which the practitioner is subject would, at a minimum, require the practitioner to be objective when performing an agreed-upon procedures engagement.

- Paragraph A12 further clarifies that national ethical codes, laws or regulations, the firm’s policies and procedures, or the terms of engagement may require the practitioner to comply with additional ethical requirements beyond those specified in the IESBA Code related to related services engagements. For example, the practitioner may be required to comply with the IESBA Code related to related services engagements as well as Part 4B of the IESBA Code, *Independence for Assurance Engagements Other Than Audit or Review Engagements*, which contains independence requirements. The independence requirements facilitate the application of objectivity. In this case, the relevant ethical requirements would require the practitioner to be objective and to comply with the independence requirements as set out in Part 4B of the IESBA Code, adapted as necessary to related services engagements.

- Paragraph 22(d) requires the terms of engagement to include a statement as to whether the relevant ethical requirements with which the practitioner will comply in conducting the agreed-
upon procedures engagement contain independence requirements, and whether the practitioner is expected to be, or not to be, independent.

- Paragraph 29(f) requires the AUP report to identify the relevant ethical requirements, including a statement as to whether the relevant ethical requirements contain independence requirements pertaining to independence and whether the practitioner is, or is not, independent.

23. In the Task Force’s view, the approach adopted reflects an appropriate balance between the need for:

- The AUP engagement to be performed by a practitioner who is objective (that is, the practitioner’s professional or business judgment is not compromised);
- Flexibility to address circumstances when the engaging party does not require the practitioner to be independent or the practitioner is required to perform the engagement despite not being independent; and
- Transparency of the relevant ethical requirements with which the practitioner has complied in performing the AUP engagement and whether the practitioner is (or is not) independent.

**Coordination with the IESBA**

24. In August 2018, the Task Force held a teleconference call with the IESBA Technical Director and Deputy Director to discuss the Task Force’s proposals related to relevant ethical requirements. In addition, the Task Force sent the penultimate draft of proposed ISRS 4400 (Revised) to IESBA staff and the IESBA member responsible for coordination with the IAASB, Ms. Sylvie Soulier, for comments on the proposed requirements and application material. The comments received have been addressed in Proposed ISRS 4400 (Revised) presented in Agenda Items 5-A and 5-B.

**Professional Judgment**

**Role of Professional Judgment in an AUP engagement**

25. At the August 2018 teleconference, the Task Force presented a draft of proposed ISRS 4400 (Revised) that included a requirement for the practitioner to apply professional judgment taking into consideration the nature of the procedures performed in an AUP engagement and application material paragraph that explained how the nature of the procedures affect the application of professional judgment.

26. The Board agreed with the Task Force’s view that the role of professional judgment in an AUP engagement differs from that in an assurance engagement. However, many Board members expressed the view that the requirement and the related application material paragraphs do not adequately explain the role of professional judgment in an AUP engagement.

27. The comments made during the teleconference and subsequent offline comments suggest varying views on the role of professional judgment in an AUP engagement. On the one hand, some Board members expressed the view that the role of professional judgment should be more limited. For example, some Board members suggested wording along the lines of: “it is not possible for the practitioner to apply professional judgment when performing the procedures”. On the other hand, other Board members said that the role of professional judgment should be expanded and disagreed
with wording implying that there are areas in an AUP engagement where little or no professional judgment is involved.

28. The Task Force considered all comments and redrafted the requirement and application material to improve the explanation of the unique role that professional judgment plays in an AUP engagement as follows:

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

Fraud and Non-Compliance with Laws and Regulations

29. Similar to paragraphs 9 and A8 of ISA 250 (Revised)\(^7\), paragraphs 7 and A9 of proposed ISRS 4400 (Revised) presented at the August 2018 teleconference included an explanation that the practitioner may have additional responsibilities regarding an entity’s non-compliance with laws and regulations.

30. The Board generally agreed with the Task Force’s proposed approach to address the entity’s non-compliance with laws and regulations. However, the Board directed the Task Force to further consider:

- Referring to fraud in paragraph 7 specifically as fraud may not necessarily be addressed by non-compliance with laws and regulations;
- Retaining the example on applying professional judgment in determining whether any of the procedures that the practitioner is being asked to agree to, including procedures that are modified over the course of the engagement, are clearly inappropriate for the purpose of the agreed-upon procedures engagement; and
- Positioning paragraph A9 as a footnote to paragraph 7.

31. The Task Force has addressed the above comments through the changes reflected in paragraphs 7 and A16 and footnote 2 in proposed ISRS 4400 (Revised).

Knowledge Acquired from Other Engagements

32. Paragraph A18 of proposed ISRS 4400 (Revised) presented at the August 2018 teleconference stated that “the exercise of professional judgment is based on facts and circumstances that are known to the practitioner… including knowledge acquired from performance of other engagements undertaken for the entity…”

\(^7\) ISA 250 (Revised), Consideration of Laws and Regulations in an Audit of Financial Statements

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33. The Board expressed concerns that expanding the application of professional judgment to include knowledge acquired from performance of other engagements is not practicable. Some Board members suggested that the knowledge acquired from performance of other engagements for the entity should be restricted to the engagement partner’s knowledge. The Board members further suggested that ISRS 4400 (Revised) should take a similar approach as proposed ISA 315 (Revised)\(^8\), which requires the engagement partner to consider whether information obtained from performing other engagements for the entity is relevant to identifying and assessing the risks of material misstatement. Other Board members thought that this application material paragraph should be removed.

34. In light of the comments raised at the August 2018 teleconference, the Task Force reconsidered this application material. Taking an approach similar to proposed ISA 315 (Revised) would mean adding a requirement for the practitioner to consider whether information obtained from performing other engagements for the entity is relevant to the AUP engagement. The Task Force is of the view that such a requirement would be difficult to operationalize as it is unclear how the engagement partner’s knowledge would (or should) impact the AUP engagement.

35. The Task Force agreed with the concerns expressed and sees this application material as being unnecessarily complicated and more problematic than helpful. Therefore, the Task Force agreed to remove this paragraph.

**Engagement Acceptance and Continuance**

**Clear Understanding of Procedures to be Performed**

36. The draft of proposed ISRS 4400 (Revised) presented at the IAASB March 2018 meeting included several conditions for an AUP engagement, including that the engaging party and the intended users have a clear understanding of the procedures to be performed.

37. The Board expressed the view that it may not be practicable for the practitioner to determine whether the engaging party and intended users have a clear understanding of the procedures. The Task Force agrees with this view. Upon further consideration, the Task Force is also of the view that it is the engaging party’s (and not the practitioner’s) responsibility to determine that the intended users understand the procedures and that the procedures are appropriate for their purposes. This is because the practitioner only has a contractual relationship with the engaging party. Accordingly, the Task Force proposes to:

- Remove the condition that the engaging party and the intended users have a clear understanding of the procedures to be performed;
- Explain in paragraph A23 that agreeing the procedures to be performed with the engaging party helps to provide the engaging party with a basis to acknowledge that the procedures to be performed are appropriate for the purpose of the engagement; and
- Repurpose the guidance in paragraph A28 so that it focuses on actions that the engaging party may take (for example, discussing proposed procedures with intended users) so that the engaging party is able to acknowledge the appropriateness of the procedures to be performed.

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\(^8\) Proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatements*
Previously, this guidance was drafted in the context of the practitioner discussing the proposed procedures with the intended users.

38. A Board member indicated that an AUP engagement may involve the practitioner reaching a preliminary agreement with the engaging party on procedures expected to be performed at the beginning of the engagement but having to modify the procedures during the course of the engagement. Paragraphs A33 and A37 recognize this relatively common circumstance. The Task Force notes that these two paragraphs are somewhat repetitive but is of the view that they work together to reinforce the idea that the procedures may be modified over the course of the engagement by discussing this idea in the context of agreeing the terms of engagement and performing the procedures, respectively.

39. Further, as suggested by a Board member, the Task Force added new application material (paragraph A34) to remind practitioners that the conditions also apply to procedures that have been modified during the course of the engagement.

**Terminology**

40. The Board agreed with the proposed condition for the AUP and findings to be described in terms that are clear, not misleading and not subject to varying interpretations. Several Board members suggested that guidance would be helpful to explain what is meant with these terms. In response, the Task Force updated the related application material (Paragraph A25 of proposed ISRS 4400 (Revised)).

41. The Task Force further considered providing a list of words that should not be used in an AUP engagement in a similar fashion as that included in some national AUP standards. However, the Task Force decided not to do so as certain words may:

- Not be unclear, misleading or subject to varying interpretations because of the context in which they are used;
- Be required by law or regulation (and a definition of the term is included in the AUP report so that the description of the procedure or finding is no longer unclear, misleading or subject to varying interpretations); or
- Present translation difficulties.

**Other Changes to Engagement Acceptance and Continuance**

42. In addition to the changes described in this and previous sections (such as those set out in Relevant Ethical Requirements), the Task Force has received many offline comments to enhance the clarity of the requirements and application material in this section. The Task Force carefully considered all comments and has made several changes in response to most of the comments received, including:

- Clarifying that the purpose of the engagement and the intended user(s) of the AUP report are identified by the engaging party in paragraphs 22(b) and 22(f); and
- Adding a reference to the addressee of the AUP report in paragraph 22(e).
Performing the Agreed-Upon Procedures Engagement

Written Representations

43. At the March 2018 meeting, the Board agreed with the Task Force’s view that it is not necessary to require the practitioner to request written representations for the following reasons:

- The engaging party may not be the responsible party. In such cases, it may not be practicable for the practitioner to obtain representations from the responsible party.
- Representations are intended to serve as evidence to support a practitioner’s opinion or assurance conclusion.
- Acknowledgement of the engaging party’s responsibilities is already addressed in agreeing the terms of engagement.

However, the Board indicated that proposed ISRS 4400 (Revised) should include an acknowledgement that representations are sometimes requested in practice as well as examples of what may be included in a representation letter.

44. To address the views expressed, the Task Force developed paragraph A38 of proposed ISRS 4400 (Revised) to indicate that the procedures performed by the practitioner may include requesting representations from appropriate parties (for example, the practitioner may request representations that the engaging party has provided the practitioner with access to all records relevant to the AUP engagement or that the engaging party has disclosed to the practitioner its knowledge of identified or suspected fraud or non-compliance with laws and regulations). As there is no requirement for the practitioner to obtain written representations, for the reasons indicated in the paragraph above, the Task Force agreed to not include guidance on a “complete” set of representations or an illustrative representation letter.

Using the Work of a Practitioner’s Expert

Additional Example of a Practitioner’s Expert

45. Subsequent to the August 2018 teleconference, the Task Force received a few offline comments suggesting confusion the use of a practitioner’s expert in an AUP engagement. For example, using a practitioner’s expert to perform a procedure because the practitioner does not have the necessary expertise seems to imply that significant professional judgment is involved in evaluating the sufficiency of evidence obtained or in interpreting the findings. Some Board members also requested further examples on how a practitioner’s expert can assist the practitioner in performing AUP.

46. The Task Force continues have the view that a practitioner’s expert can assist the practitioner by using the expert’s competence and capabilities in performing the AUP without applying professional judgment in evaluating the sufficiency of evidence obtained or interpreting findings. An example may be a technician operating a drone to assist the practitioner in taking aerial photographs [this example is included in paragraph A39 of proposed ISRS 4400 (Revised)]. The Task Force believes that such use of a practitioner’s expert is likely going to become more prevalent with technological advances.
Referring to a Practitioner’s Expert in an AUP Engagement Report

47. The draft of proposed ISRS 4400 (Revised) presented at the IAASB March 2018 meeting required the AUP engagement to report “a listing of the procedures performed detailing the nature and extent of each procedure, including, if relevant, the procedures performed by the practitioner’s expert.”

48. In offline comments, a few Board members questioned the necessity of highlighting procedures performed by the practitioner’s expert in the AUP engagement report. The Board members noted that the practitioner is responsible for the AUP engagement as a whole – any allocation of the procedures between the practitioner and the expert should not concern the engaging party or intended users. Moreover, highlighting the procedures performed by the expert may increase the likelihood of the engaging party or intended users misinterpreting those procedures and the resulting findings.

49. The Task Force agrees with the views expressed and proposes to use the same approach as in ISAE 3000 (Revised).\(^9\) To that end, the Task Force:

- Deleted the requirement for the AUP engagement report to refer to the procedures performed by the practitioner’s expert;
- Added a requirement in paragraph 30 in proposed ISRS 4400 (Revised) that, if the practitioner refers to the procedures performed by a practitioner’s expert in the AUP report, the wording of the AUP report shall not imply that the practitioner’s responsibility for performing the procedures and reporting the findings is reduced because of the involvement of that expert; and
- Added application material to provide guidance on considerations when referring, in the AUP report, to a practitioner’s expert who performed any of the AUP in paragraph A46 of proposed ISRS 4400 (Revised).

Other Considerations

50. The Task Force notes that ISA 620\(^10\) deals with evaluating the adequacy of the auditor’s expert’s work while paragraph 27(c) of proposed ISRS 4400 (Revised) deals with determining whether the findings reported by the practitioner’s expert adequately describe the results of the procedures performed. The word “determine” is normally used when the result of the determination is a clear “yes or no.” In the Task Force’s view, the word “determining” is appropriate in the context of an AUP engagement. As the findings are factual results of procedures performed, the practitioner is able to determine whether or not the findings reported by the individual or organization adequately describe the results of the procedures performed.

\(^9\) ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, paragraphs 70 and A185-A186

\(^10\) ISA 620, Using the Work of an Auditor’s Expert
The Agreed-Upon Procedures Report

Illustrations of AUP Engagement Reports

51. The Working Draft of proposed ISRS 4400 (Revised) presented at the IAASB March 2018 meeting included two illustrations of AUP engagement reports. The IAASB directed the Task Force to consider further clarifications to the illustrative reports – for example, clarifying:
   - How the practitioner determined that the 125 contracts obtained by the practitioner are the only contracts relevant to the AUP engagement.
   - What the finding of “no exception” means.

52. In response to the IAASB’s direction, the Task Force has revised the illustrative AUP engagement reports in Appendix 2 of Agenda Item 5-B.

Date of Report

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

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

Other Changes to Reporting

55. In addition to the changes as previously discussed such as those set out in the sections on Relevant Ethical Requirements and Practitioner’s Expert, to enhance consistency throughout the standard, the Task Force has added references to:
   - The engaging party acknowledging that the procedures are appropriate for the purpose of the engagement in paragraph 29(g)(ii); and
   - If relevant, timing of the procedure in paragraph 29(h).

The Task Force included the preamble “if relevant” before timing to reflect many of the AUP reports issued in practice today, which only describe the nature and extent (but not the timing) of the procedures performed.

Documentation

56. The draft of proposed ISRS 4400 (Revised) presented at the IAASB March 2018 meeting included documentation requirements based on ISA 230.\(^\text{11}\) A Board member indicated that the documentation requirements are more rigorous than those in ISAE 3000 (Revised). While agreeing that the requirements reflect good practice, the member noted that it seemed peculiar that the documentation requirements in a non-assurance engagement standard would be more rigorous than those in an assurance engagement standard.

\(^\text{11}\) ISA 230, Audit Documentation
57. To address the peculiarity while encouraging good practice, the Task Force reconsidered the documentation requirements and is proposing to:

- Delete the requirement relating to “matters that may preclude the practitioner from completing the engagement”. This is because, in an AUP engagement, such a matter would already be included in the AUP report as a finding.
- Move the matters that are not required to be documented in ISAE 3000 to a new application material (see paragraph A48).

Matter for IAASB Consideration

2. The Board is asked for its views on the Task Force’s proposals as reflected in proposed ISRS 4400 (Revised).

Section 5: Other Matters

Matters for Explanatory Memorandum

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

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

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

Effective Date

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

Other Due Process Matters

61. In the Task Force’s view, the significant matters identified from the beginning of this project have all been presented to the Board for discussion. In the view of the Task Force, there are no significant matters that have not been brought to the attention of the Board.

62. The Task Force does not believe that a consultation paper, field testing or a roundtable is needed at this stage of the project as the Task Force had previously conducted substantial outreach on the Discussion Paper, Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB’s International Standards. The Task Force plans to reach out to parties that have previously provided comments on the Discussion Paper.

63. The Task Force did not identify any impact on the IAASB’s International Standards arising from the proposed changes to ISRS 4400 (Revised).

Matters for IAASB Consideration

3. The Board is asked for its views on:

   (a) Whether there are any other matters that should be addressed in the Explanatory Memorandum.

   (b) The exposure period and the planned effective date.
Appendix 1

Task Force Activities including Outreach and Coordination with Other IAASB Task Forces

The following sets out the activities of the Task Force, including outreach with others and coordination with other IAASB Task Forces since March 2018.

Task Force Activities since March 2018 IAASB Discussion

1. The Task Force held one physical meeting and two teleconferences since March 2018 IAASB meeting.

2. The Task Force presented two issues to the Board at the August 2018 teleconference.

Outreach

3. The Chair of the Task Force and staff had a teleconference in August 2018 with IESBA staff to discuss requirements and application material related to relevant ethical requirements in proposed ISRS 4400 (Revised). The Task Force also had ongoing communications via e-mail with IESBA staff and the IESBA member responsible for coordination with the IAASB, Ms. Sylvie Soulier.

4. The Task Force had a meeting with the Small and Medium Practices Committee’s International Rapid Response Task Force (IRRTF) in June 2018 to discuss certain aspects of proposed ISRS 4400 (Revised).

Coordination with Other IAASB Task Forces

5. The Chair of the Task Force and staff had a teleconference in July 2018 with the Chair and staff of the ISQC Task Force to discuss references to quality control in ISRS 4400 (Revised).
Agreed-Upon Procedures Engagement

The Board discussed the matters set out in (Agenda Item 5 and the accompanying Working Draft of ISRS 4400 12 (Agenda Item 5-A). The IAASB generally supported the AUP Task Force’s proposals. Key views expressed included:

- Support for the use of the term ‘findings’ instead of ‘factual findings,’ but the board asked that the AUP Task Force consider further clarifications where possible.
- Support for the AUP Task Force’s collaboration with the International Ethics Standards Board of Accountants (IESBA) to develop criteria for determining whether the practitioner is independent.
- While agreeing that the AUP standard should be sufficiently flexible to address various circumstances when an AUP engagement is performed, the Board directed the AUP Task Force to consider whether it is appropriate to elevate some of the application material to requirements; for example, actions to be taken if the practitioner becomes aware of fraud.
- That ISRS 4400, when revised, should reflect the circumstances where the practitioner may reach a preliminary agreement with the engaging party on procedures to be performed at the start of the engagement, and subsequently confirm the procedures that were actually performed at the end of the engagement.
- Other matters for the AUP Task Force’s consideration, such as:
  - Further clarity for the phrase “findings are described objectively,” as it is unclear whether the phrase means that the practitioner who describes the findings is objective;
  - Clarifying whether the phrase “subject matter” is intended to convey the same meaning as the phrase that is used in ISAE 3000 (Revised);13
  - Aligning the documentation requirements with those in ISAE 3000 (Revised);
  - Clarifying the requirement for the date of the AUP report; and
  - Providing examples of inappropriate terminology, which may be more useful than examples of appropriate terminology.

IAASB CAG CHAIR’S REMARKS

Mr. Dalkin noted the CAG’s support for moving forward with the AUP project. On the issue of the use of the term ‘finding,’ Mr. Dalkin supported the use of the term “finding” as “finding” is inherently factual. He also suggested further consideration of the relationships between professional judgment, independence and objective reporting.

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12 International Standard on Related Services (ISRS) 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information

13 International Standards on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information
PIOB OBSERVER REMARKS

Ms. Stothers indicated that the PIOB is particularly interested in the issue of whether a practitioner performing an AUP engagement is required to be independent. This issue has potential public interest implications on the credibility of the practitioner and the quality of the engagement.

WAY FORWARD

The AUP Task Force will further consider changes to the Working Draft of ISRS 4400, as well as actively monitor developments relating to ISQC 14 and the new revised IESBA *International Code of Ethics for Professional Accountants (including International Independence Standards)* so that any changes in the draft of ISRS 4400 (Revised) align.
Agreed-Upon Procedures (ISRS 4400)

The Board discussed the Agreed-Upon Procedures (AUP) Task Force’s (the Task Force) proposals on professional judgment and relevant ethical requirements (Agenda Item 1). The IAASB generally supported the AUP Task Force’s proposals.

PROFESSIONAL JUDGEMENT

The Board supported the Task Force’s view that the role of professional judgment in an AUP engagement differs from that in an assurance engagement and that the role of professional judgment goes beyond the practitioner’s consideration of the nature of the procedures. For example, professional judgment is involved in activities such as engagement acceptance and continuance and reporting.

The Board asked the Task Force to further consider:

- Including a reference to fraud in the paragraphs addressing non-compliance with laws and regulations as there may be circumstances when fraud may not be covered by non-compliance with laws and regulations.
- Changing the application material related to knowledge acquired from other engagements as it may not be practicable for the practitioner to consider knowledge from other engagements performed for the entity as these engagements may be performed by another audit partner. It was suggested that the knowledge acquired from performance of other engagements for the entity should be restricted to the engagement partner’s knowledge or should be removed given that it will be difficult to operationalize.

RELEVANT ETHICAL REQUIREMENTS

The Board supported the Task Force’s view that a practitioner performing an AUP engagement is required to comply with the fundamental principle of objectivity but is not required to be independent and asked the Task Force to further consider:

- Requiring, if the practitioner is not independent, a statement to this effect given the importance of transparency on whether the practitioner is (or is not) independent. Some Board members suggested that the AUP report should always include a statement about the auditor’s independence.
- Clarifying the Task Force’s proposed criterion for determining whether the practitioner is independent, as it is unclear what Part 4B of the International Ethics Standards Board for Accountants Code, adapted as necessary for AUP engagements, means.

IAASB CAG CHAIR’S REMARKS

Mr. Dalkin noted that in his view the project is moving in the right direction. With respect to the auditor’s independence when performing an AUP engagement, he agreed with the concept of objectivity and noted that disclosure of non-independence is critical for transparency.
PIOB OBSERVER REMARKS

Ms. Stothers noted that the professional judgment section had improved significantly and that the IAASB had a robust discussion of the topics presented.

WAY FORWARD

The AUP Task Force will present the proposed ISRS 4400 (Revised) for the Board’s approval for exposure in September 2018.