

Basis for Conclusions
Prepared by the Staff of the IAASB
February 2020

International Standard on Related Services 4400
(Revised)

Agreed-Upon Procedures Engagements

IAASB

International Auditing
and Assurance
Standards Board

About the IAASB

The Staff of the International Auditing and Assurance Standards Board prepared this document, and it does not constitute an authoritative pronouncement of the IAASB. The document does not amend, extend or override the International Standards on Auditing or other of the IAASB's International Standards.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related services standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

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BASIS FOR CONCLUSIONS: ISRS 4400 (REVISED), AGREED-UPON PROCEDURES ENGAGEMENTS

The Staff of the International Auditing and Assurance Standards Board (IAASB) has prepared this Basis for Conclusions. It relates to, but does not form part of, ISRS 4400 (Revised), *Agreed-Upon Procedures Engagements*.

ISRS 4400 (Revised) was approved with affirmative votes of 17 out of 18 IAASB members present for the vote at the December 2019 meeting.¹

Introduction

Background

1. Agreed-upon procedures (AUP) engagements are widely used in many jurisdictions and the demand for AUP engagements continues to grow, particularly in relation to the need for increased accountability around funding and grants. Extant ISRS 4400² was developed over 20 years ago and has not kept pace with the significant changes that have occurred in the business environment driving the demand for AUP engagements on both financial and non-financial subject matters. To explore the issues related to AUP engagements, the IAASB commenced a project in 2015.
2. In November 2016, a Discussion Paper, *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards* ("Discussion Paper")³ was issued to explore the demand for, and issues relating to, AUP engagements. Responses from a wide range of stakeholders and jurisdictions were overwhelmingly supportive of the views and conclusions expressed in the Discussion Paper. In September 2017, the IAASB approved a project proposal⁴ to revise extant ISRS 4400 to address issues relating to AUP engagements with the following objectives:
 - Redraft the standard using the clarity drafting conventions such that the standard is consistent with other IAASB International Standards.⁵
 - Revise the standard to better reflect practice in AUP engagements being undertaken.

¹ For a full record of the voting on International Standard on Related Services (ISRS) 4400 (Revised), including the rationale of the IAASB member who voted against the standard, see [IAASB Public-Minutes-of-the-Meeting-December-2019](#)

² ISRS 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

³ [IAASB Agreed-Upon Procedures Working Group Discussion Paper](#)

⁴ [IAASB Agenda Item 5-B Agreed-Upon Procedures Project Proposal](#)

⁵ The IAASB's International Standards comprise the International Standards on Auditing (ISAs), the International Standards on Review Engagements (ISREs), the International Standards on Assurance Engagements (ISAEs), and the International Standards on Related Services (ISRSs).

3. In November 2018, the IAASB issued its Exposure Draft of proposed ISRS 4400 (Revised)⁶ (ED-4400). Fifty-two responses were received across a wide range of stakeholders and jurisdictions, including regulators and audit oversight authorities, national auditing standard setters, accounting firms, public sector organizations, International Federation of Accountants (IFAC) Member Organizations and other professional organizations, and one Monitoring Group member.⁷

Public Interest Issues

4. The table below shows the public interest issues identified by the IAASB in the project proposal, and the subsequent decisions made to enhance the standard in the public interest, taking into account the comments received in response to ED-4400 (paragraph references in this table are to ISRS 4400 (Revised)).

Public Interest Issues	IAASB Decisions
<p>Responding to the needs of the IAASB’s stakeholders</p> <ul style="list-style-type: none"> • Meeting 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. 	<p>The IAASB responded by:</p> <ul style="list-style-type: none"> • Broadening the scope of ISRS 4400 (Revised) to include financial and non-financial subject matters in paragraph 2. • Clarifying the circumstances when the practitioner is required to comply with independence requirements and enhancing the application material relating to the practitioner’s discussion and agreement with the engaging party to comply with independence requirements, and reporting with respect to compliance with independence requirements, in paragraphs 22(e), 24(e), 30(l), A37 and A38. • Introducing requirements and application material to address the use of the work of a practitioner’s expert in an AUP engagement in paragraphs 20, 29, A27 and A46 to A50.
<p>Providing clarity in the AUP report</p> <ul style="list-style-type: none"> • Enhancing the report for clearer, more consistent language which will help clarify what was done and the results therefrom, thereby reducing confusion that may 	<p>The IAASB responded by:</p> <ul style="list-style-type: none"> • Introducing requirements and application material to promote use of terminology that is clear, not misleading, and not subject to varying interpretations in paragraphs 22(c), 24(i), 30(e)(ii) and A32 to A36.

⁶ [Exposure Draft Agreed-Upon Procedures Engagements](#)

⁷ The Monitoring Group comprises the Basel Committee on Banking Supervision (BCBS), the European Commission, the Financial Stability Board, the International Association of Insurance Supervisors (IAIS), the International Forum of Independent Audit Regulators (IFIAR), the International Organization of Securities Commissions (IOSCO) and the World Bank. A response to ED-4400 was received from the World Bank.

<p>arise in practice about AUP engagements.</p>	<ul style="list-style-type: none"> • Enhancing the AUP report by including a requirement to identify the purpose of the AUP report and state that the AUP report may not be suitable for another purpose in paragraph 30(d), and introducing application material on the practitioner’s considerations in deciding whether to restrict the use or distribution of the AUP report in paragraphs A53 and A54. • Introducing a requirement for the AUP report to include a description of an AUP engagement, including what constitutes a finding, in paragraph 30(e). • Enhancing transparency on, among other matters: <ul style="list-style-type: none"> ○ The responsibilities of the various parties involved in an AUP engagement in paragraphs 30(e) and 30(f). ○ Whether or not the practitioner is required to comply with independence requirements and if so, the relevant independence requirements, including disclosure, in paragraph 30(l). • If a summary of findings is provided, introducing a requirement in paragraph 32 to reduce the likelihood of misinterpretations of the summary. • Requiring the agreed-upon procedures report to be clearly distinguished from reports on other engagements (including instances when the practitioner is requested to provide recommendations) in paragraph 34 and A59. • Including two new example AUP reports in Appendix 2 of ISRS 4400 (Revised) to illustrate how the changes affect AUP reports.
<p>Reducing inconsistency in the performance of AUP engagements</p> <ul style="list-style-type: none"> • Redrafting the standard using the clarity drafting conventions and other changes for clarification and enhancement will promote consistent interpretation and performance of AUP engagements by practitioners. 	<p>The IAASB responded by:</p> <ul style="list-style-type: none"> • Redrafting ISRS 4400 using the clarity drafting conventions such that the standard is consistent with other IAASB International Standards. Redrafting ISRS 4400 under the clarity drafting convention helps to promote consistency by specifying the objectives of the standard and

	<p>clearly setting out the requirements with which the practitioner must comply.</p> <ul style="list-style-type: none"> • Introducing requirements and application material in paragraphs 3 and A3 to A8 to create a clear linkage between the practitioner's responsibilities when performing an AUP engagement under ISRS 4400 (Revised) and the firm's system of quality control as required by ISQC 1.⁸ • Clarifying the practitioner's responsibilities when becoming aware of identified or suspected non-compliance with laws and regulations in paragraphs 17 and A16 to A20. • Introducing a requirement for the practitioner to exercise professional judgment throughout the AUP engagement (paragraph 18) and the development of guidance in paragraphs A21 to A23. • Introducing engagement acceptance and continuance conditions in paragraphs 21 to 23 and A28 to A38. • Introducing documentation requirements and application material in paragraphs 35 and A60.
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5. The Appendix to this document shows how the IAASB addressed the list of public interest issues related to the project to revise ISRS 4400 that were provided to the IAASB by the Public Interest Oversight Board (PIOB). These issues were identified from observation activities by PIOB members and from analyses carried out by PIOB staff. The issues were also raised by PIOB observers during the course of meetings attended.

Effective Date Based on the Agreed Terms of Engagement

Background

6. ED-4400 reflected the Board's view that:
- An appropriate effective date would be approximately 18–24 months after the approval of ISRS 4400 (Revised); and
 - The effective date should be based on the date of the agreed terms of engagement.

⁸ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*. ISQC 1 is expected to be replaced by proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*. Conforming amendments will be made to ISRS 4400 (Revised) after ISQM 1 has been finalized.

7. An effective date based on the date of the AUP report was not supported as it 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 ISRS 4400 (Revised). If ISRS 4400 (Revised) were to become effective for AUP reports dated during engagements covering multiple years, practitioners may not be able to comply with the agreed terms of engagement.

Summary of Comments Received on Exposure

8. Respondents supported the proposed effective date. However, some respondents expressed a concern that basing the effective date on the date of the agreed terms of engagement may not be practical for recurring engagements or when there has been an amendment in the terms of engagement. The respondents suggested to base the effective date on the AUP report date, which would be consistent with other IAASB pronouncements such as ISAE 3000 (Revised).⁹

IAASB Decisions

9. The IAASB debated the merits of basing the effective date on either the AUP report date or the date of the agreed terms of engagement. From the balance of views expressed by respondents to ED-4400 and the Board's discussions, the IAASB ultimately agreed on an effective date that is based on the date of the agreed terms of engagement. ISRS 4400 (Revised) is effective for agreed-upon procedures engagements for which the terms of engagement are agreed on or after January 1, 2022. The IAASB developed paragraph A9 to address circumstances when the terms of engagement cover multiple years.

Independence

Background

10. Consistent with extant ISRS 4400 and the International Ethics Standards Board for Accountants (IESBA)'s *Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), ED-4400 did not include a precondition for the practitioner to be independent when performing an AUP engagement or a requirement for the practitioner to determine independence.
11. To enhance transparency, ED-4400 required certain disclosures in the AUP report depending on whether the practitioner is required to be independent and whether the practitioner is, indeed, independent.

Summary of Comments Received on Exposure

12. Respondents agreed that there should not be a precondition for the practitioner to be independent when performing an AUP engagement. Respondents also agreed with the enhanced transparency in the AUP report regarding the practitioner's independence. However, other respondents suggested that, when 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, a statement indicating that the practitioner is not independent:
 - Is not useful or relevant;
 - Diminishes the perceived value of the findings; and

⁹ International Standards on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

- 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 for AUP engagements.

IAASB Decisions

13. The IAASB recognized the strong support expressed by respondents to ED-4400 for 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 IAASB reaffirmed this position in ISRS 4400 (Revised).
14. The IAASB noted that, in the absence of independence requirements for AUP engagements, there are no criteria against which the practitioner can determine whether the practitioner is, or is not, independent for the purpose of the AUP engagement. Accordingly, disclosure in the AUP report that the practitioner is, or is not independent, may be confusing to users.
15. The IAASB also noted that there may be circumstances when the practitioner performing the AUP engagement is also the auditor of the financial statements of the engaging party (or responsible party if different from the engaging party). In such circumstances, users of the AUP report may assume that the practitioner is independent for the purpose of the AUP engagement, and therefore the practitioner may agree with the engaging party that the practitioner's compliance with the independence requirements applicable to audits of financial statements is appropriate for the AUP engagement. Further, the practitioner may have other reasons for believing that compliance with certain identified independence requirements may be appropriate for the purpose of the AUP engagement.
16. Accordingly, the IAASB developed application material in paragraphs A37 and A38 to assist practitioners in complying with the engagement acceptance and continuance requirements in paragraph 22 and agreeing the terms of engagement requirements in paragraph 24. The application material explains that the practitioner's knowledge of certain matters may indicate that a discussion with the engaging party as to whether compliance with certain identified independence requirements is appropriate, for the purpose of the AUP engagement, even when the practitioner is not required by relevant ethical requirements, law or regulation, or other reasons to comply with independence requirements. If so, the practitioner may agree with the engaging party, in the terms of engagement, to comply with the relevant independence requirements for the purpose of the AUP engagement. The corresponding reporting requirements in paragraph 30(l) depend on whether the practitioner is:
 - 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.

The reporting requirements are illustrated in Appendix 2 (including that Illustration 2 of Appendix 2 addresses a situation where the practitioner is the auditor of the financial statements of the engaging party (who is the responsible party), as referred to in paragraph 15, above).

Fraud and Non-Compliance with Laws or Regulations

Background

17. An introductory paragraph of ED-4400 addressed fraud and non-compliance with laws and regulations, which was derived from paragraph 9 of ISA 250.¹⁰

Summary of Comments Received on Exposure

18. 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.

IAASB Decisions

19. To expand on the guidance relating to fraud and non-compliance with laws and regulations, the IAASB replaced the introductory paragraph with paragraphs A16-A20, which are derived from paragraphs A22-A26 of ISRS 4410 (Revised).¹¹

Professional Judgment

Background

20. ED-4400 required the practitioner to apply professional judgment in accepting and conducting an AUP engagement, taking into account the circumstances of the engagement. Application material was included to provide examples of areas where professional judgment may be applied, and to explain the unique role that professional judgment plays in an AUP engagement.

Summary of Comments Received on Exposure

21. Respondents to ED-4400 agreed that although professional judgment may be limited in certain circumstances, it is never completely suspended in an AUP engagement, particularly at the engagement acceptance stage. Nonetheless, respondents indicated that professional judgment cannot be exercised when performing the procedures (or is exercised in a very limited manner). In addition, respondents indicated that the definition of professional judgment was confusing. For example, it was unclear:
- What the reference to “*professional standards*” in the definition means. 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.

IAASB Decisions

22. To respond to the views expressed by respondents to ED-4400, the IAASB recognized that professional judgment is exercised throughout an AUP engagement. However, the IAASB acknowledged that professional judgment may be limited when performing the agreed-upon procedures. The IAASB made the following changes to better reflect how professional judgment is exercised in an AUP engagement:

¹⁰ International Standards on Auditing (ISA) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

¹¹ ISRS 4410 (Revised), *Compilation Engagements*

- Amended paragraph 18 to clarify that professional judgment is exercised throughout the engagement, including in accepting, conducting and reporting on the AUP engagement.
 - Added new examples and subheadings to paragraph A22 to better demonstrate how professional judgment may be exercised when accepting, conducting and reporting on the AUP engagement.
 - Amended paragraph A23 to explain why, in conducting the engagement, the need for the practitioner to exercise professional judgment when performing the agreed-upon procedures is limited.
23. The IAASB 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, in making informed decisions about the courses of action that are appropriate in the circumstances of the agreed-upon procedures engagement.” The amended definition uses the same construct as that in ISAE 3000 (Revised),¹² which defines professional judgment as “the application of relevant training, knowledge and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.” The IAASB concluded that 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.
24. The IAASB debated the comment on professional skepticism referenced above and noted that the IAASB standards only reference professional skepticism in the context of the critical assessment of evidence in audit and assurance engagement standards. The IAASB concluded that no changes need to be made to ISRS 4400 (Revised).

Engagement Acceptance and Continuance

Background

25. Extant ISRS 4400 does not require any engagement acceptance and continuance conditions before accepting or continuing an AUP engagement. To reinforce the unique characteristics of an AUP engagement, ED-4400 proposed the following engagement acceptance and continuance conditions be met before accepting the engagement:
- The engaging party acknowledges that the expected procedures to be performed by the practitioner are appropriate for the purpose of the AUP engagement;
 - The procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations; and
 - The practitioner obtains an understanding of the purpose of the engagement and does not accept the engagement if the practitioner is aware of any facts or circumstances suggesting that the procedures the practitioner is being asked to perform are inappropriate for the purpose of the AUP engagement.

Summary of Comments Received in Exposure

26. Respondents agreed with the IAASB’s proposal to introduce engagement acceptance and continuance conditions. 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.

¹² ISAE 3000 (Revised), paragraph 12(t)

27. Respondents also 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 (such as when the agreed-upon procedures are modified during the course of the engagement).

IAASB Decisions

28. The IAASB agreed with the concept underlying the term '*rational purpose*' in an AUP engagement. However, the IAASB observed that this term is generally associated with assurance engagements. Accordingly, the IAASB introduced elements of the concept of '*rational purpose*' in paragraph A28 without referring to it as such.
29. With respect to the concern that the engagement acceptance and continuance conditions do not provide flexibility to address changes that may take place as the engagement progresses, the IAASB noted that paragraph A43 (related to agreeing the terms of engagement) includes an example of a simple and informal way to document procedures that have been modified during the course of the engagement. The IAASB considered various ways to enhance paragraph A43 to further emphasize the iterative process of agreeing and performing the procedures such as providing guidance that the practitioner may agree the amended terms of engagement with the engaging party verbally during the course of the AUP engagement, and obtain an updated engagement letter or another form of written acknowledgement prior to the completion of the engagement. However, the IAASB noted that such guidance may not be practicable in some jurisdictions due to contractual laws. For these reasons, the IAASB concluded not to make further changes to paragraph A43 (except for some editorial changes).
30. In addition to the above, the IAASB supported various changes throughout the engagement acceptance and continuance requirements and application material in response to suggestions provided by respondents to ED-4400, including:
- Additional conditions in paragraphs 22(b), 22(d) and 22(e).
 - A requirement (in paragraph 23) for 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.
 - Further guidance and examples in paragraphs A34, A39, A41 and A44.

Parties Involved in an AUP Engagement

Background

31. ED-4400 included references to the responsible party. However, this term was not defined in ED-4400.

Summary of Comments Received on Exposure

32. 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.

IAASB Decisions

33. In response to the comments received, the IAASB 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);

- Added a requirement in paragraph 30(f) for the AUP report to include a statement that the responsible party is responsible for the subject matter on which the AUP are performed;
- Added paragraph A10 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 added references to “(if relevant, other parties)” in key areas of the standard, including the definitions, terms of engagement and the AUP report (paragraphs 13(a), 13(b), 24(f)(i), 24(g), 30(e)(i) and 30(e)(iii)); and
- Amended Appendix 2 to illustrate how these changes affect the AUP report:
 - 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 an addressee in addition to the engaging party. 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.

Findings

Background

34. Extant ISRS 4400 referred 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:
- Used the term “*findings*” instead of “*factual findings*;”
 - Included a definition of findings; and
 - Included 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.

Summary of Comments Received on Exposure

35. Respondents agreed with the term “*findings*” for the reasons stated in ED-4400. However, other respondents preferred to revert to the term “*factual findings*,” noting 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.
36. Respondents also suggested that the definition should allow for more flexibility, for example, by permitting the practitioner to provide a summary of the findings.

IAASB Decisions

37. Consistent with the view expressed by respondents to ED-4400, the IAASB retained the use of the term “*findings*.” To help engaging parties and other intended users understand that findings are factual in nature, the IAASB added paragraphs 24(f)(ii) and 30(e)(ii) to require the engagement letter and the AUP report, respectively, to include an explanation that findings are the factual results of the AUP performed. Corresponding changes were made to the illustrative examples included in Appendices 1 and 2.

38. In its deliberations, the IAASB agreed that there is merit in allowing the practitioner to provide a summary of findings. However, to avoid misinterpretations of the summary, the IAASB developed paragraph 32 to require:
- The summary of findings to be described in a manner that is objective, in terms that are clear, not misleading, and not subject to varying interpretations; and
 - The AUP report to include a statement indicating that reading the summary is not a substitute for reading the complete report.
39. In addition to the above, the IAASB supported amendments to the following paragraphs:
- Paragraph 13(f) – Removed the reference to “*objectively described*” from the definition of findings. In the IAASB’s view, while findings should be objectively described, the term ‘*findings*’ should be defined only in terms of what inherently makes something a finding, namely “*factual results of the AUP performed*” and “*capable of being objectively verified.*” Further, the preconditions for accepting and continuing an agreed-upon procedure engagement, already require that procedures and related findings “can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretation” (paragraph 22(c)).
 - Paragraph A13 – Clarified the circumstances when the term ‘*findings*’ may be replaced with ‘*factual findings.*’

Written Representations

Background

40. ED-4400 required 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.

Summary of Comments Received on Exposure

41. Respondents to ED-4400 had conflicting views. Some respondents indicated that a requirement to consider whether it is necessary to obtain written representations seems inappropriate because written representations may never be “necessary” even if practitioners may consider them to be desirable. Others noted that written representations should be required for all AUP engagements or suggested developing guidance on circumstances when written representations may be appropriate.

IAASB Decisions

42. The IAASB continued to support the principle that the practitioner be required to consider whether to request written representations. However, to emphasize that there is no expectation for the practitioner to request written representations on all AUP engagements, the IAASB:
- Clarified paragraph 28 to require the practitioner to consider whether to request written representations (as opposed to considering whether it is necessary to request written representations); and
 - Enhanced the application material (paragraph A45) by clarifying that requesting written representations is based on the practitioner’s decision and by amending the examples in paragraph A45 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).

Practitioner's Expert

Background

43. ED-4400 introduced requirements and application material to provide guidance on how a practitioner's expert can assist the practitioner in an AUP engagement. Similar to the approach in ISAE 3000 (Revised), if reference is made to a practitioner's expert in an AUP report, ED-4400 required the wording of the AUP report to not imply that the practitioner's responsibility is reduced because of the involvement of the expert.

Summary of Comments Received on Exposure

44. 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.
45. Other suggestions raised by respondents included:
- Clarifying the definition of an expert;
 - Requiring agreement on the work to be performed by the practitioner's expert;
 - Distinguishing different types of practitioner's experts and the different ways a practitioner's expert may assist the practitioner; and
 - Enhancing the example of the use of a practitioner's expert in Appendix 2 Illustration 2 of ED-4400.

IAASB Decisions

46. To address concerns relating to the practitioner being unable to take appropriate responsibility for the findings when the work of a practitioner's expert is used, the IAASB added:
- Paragraph 20 to require the practitioner to 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.
 - Paragraph A27 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.
 - Paragraph A58 to remind the practitioner 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..."
47. The IAASB considered concerns that the use of a practitioner's expert may imply that the AUP engagement requires the application of significant professional judgment. The IAASB is of the view this concern is mitigated by a new requirement to include an explanation of "*findings*" in the engagement letter and the AUP report (in paragraphs 24(f)(ii) and 30(e)(ii), respectively), together with the enhancements to engagement acceptance and continuance conditions in paragraphs 21–23. These changes reinforce the premise that findings must be described objectively, in terms that are clear, not misleading or subject to varying interpretations.

48. In response to the comments received, the IAASB clarified the definition of a practitioner's expert (paragraph 13(i)). 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 recognize that a practitioner's expert may provide other services to an engaging party that are not designed to assist with the performance of the AUP engagement. For example, a tax expert may be involved in a compilation engagement for the engaging party and may still be a practitioner's expert for the purpose of the AUP engagement.
49. The IAASB added paragraphs 29(b), A48-A49 and A50 to address the concerns related to agreeing the work to be performed by the practitioner's expert. The approach taken is similar to the approach in ISAE 3000 (Revised).
50. To clarify how a practitioner's expert may assist the practitioner, the IAASB added:
- Paragraph A46 to explain that a practitioner's expert may assist the practitioner in discussing with the engaging party the agreed-upon procedures to be performed or performing one or more of the agreed-upon procedure(s); and
 - Paragraph A47 to distinguish between a practitioner's internal expert who is part of the firm and a practitioner's external expert.
51. The IAASB enhanced the example of a practitioner's expert in Illustration 2 of Appendix 2 to that of an expert assisting with translating records that were submitted in a foreign language.

AUP Report

Background

52. 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. The standard was not clear on the scope or identity of the "*parties that have agreed to the procedures to be performed.*" A narrow interpretation was 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. However, application material clarified that the inclusion of such a statement was based on the discretion of the practitioner, subject to local laws and regulations.
53. ED-4400 set out additional matters to be included in an AUP report to enhance the transparency of the engagement and included new illustrative reports to provide examples of how the procedures and findings may be described in an AUP report.

Summary of Comments Received on Exposure

54. Respondents agreed that the AUP report should not be restricted to parties that have agreed to the procedures to be performed and respondents also agreed with the proposed structure and content of the AUP report.
55. However, several suggestions to enhance the AUP report were provided, including:
- Adding subheadings to the illustrative AUP reports;
 - Clarifying certain required statements in the AUP report;

- Amending the requirement on the date of the AUP report to allow for some flexibility in dating the AUP report; and
- Providing guidance to address particular circumstances, such as the inclusion of sensitive or confidential information in the AUP report.

IAASB Decisions

56. Consistent with views expressed by respondents to ED-4400, the IAASB retained the approach of not requiring a restriction to be placed on the AUP report. To provide guidance on factors that the practitioner may consider in deciding whether to restrict the AUP report and to address other suggestions relating to restrictions on use or distribution of the AUP report, the IAASB added:
- Material in paragraph A53 to clarify that in some jurisdictions, it may be possible to restrict the use of the agreed-upon procedures 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 A54 to provide guidance on factors that the practitioner may consider in deciding whether to restrict the distribution or use of the AUP report.
57. To address respondents' comments on the structure and content of the AUP report, the IAASB made the following changes (in addition to the changes previously discussed):
- Added subheadings to the illustrative AUP reports.
 - Replaced the statement “the AUP engagement does not constitute a reasonable or limited assurance engagement...” in paragraph 30(i) with “the AUP engagement is not an assurance engagement...” This change addresses a concern that the phrase “reasonable or limited assurance” may not be well understood by intended users.
 - Amended paragraph 33 to require the practitioner to date the AUP report no earlier than the date on which the practitioner completed the AUP engagement. This change is intended to acknowledge that it may not always be practicable to date the AUP report on the same date that the AUP engagement was completed (which was required by ED-4400).
 - Added paragraph A55 to address concerns relating to the inclusion of sensitive or confidential information in an AUP report.
 - Added paragraph A56 to provide guidance in circumstances where the practitioner may wish to identify any procedures that were agreed to in the original terms of engagement that could not be performed, or were modified, and why that has arisen.

Value and Limitations of an AUP Engagement

Background

58. The introductory paragraphs in ED-4400 included a brief description of the nature of an AUP engagement. The introductory paragraphs did not include a comparison between AUP engagements and assurance engagements.

Summary of Comments Received on Exposure

59. Respondents emphasized the importance of educating the public on the value and limitations of an AUP engagement, including how an AUP engagement differs from an assurance engagement. Respondents suggested to:
- Enhance the description of an AUP engagement in the AUP report, including what findings entail and the various parties to the AUP engagement; and
 - Develop implementation material on the value and limitations of an AUP engagement, particularly as to how an AUP engagement differs from an assurance engagement.

IAASB Decisions

60. The IAASB enhanced the description of an AUP engagement in the AUP report by requiring:
- An explanation that findings are the factual results of AUP performed in paragraph 30(e)(ii); and
 - A statement that the responsible party is responsible for the subject matter on which the AUP are performed in paragraph 30(f).
61. The IAASB debated the merits of including material on differences between AUP engagements and assurance engagements in ISRS 4400 (Revised) and agreed not to include such materials in the standard. In its deliberations, the IAASB noted that including material on the differences between AUP and assurance engagements within the standard may create confusion for practitioners who do not ordinarily perform assurance engagements. In this regard, the IAASB concluded that the introductory material in paragraph 6 is sufficient in terms of drawing the distinction that an “agreed-upon procedures engagement is not an audit, review or other assurance engagement. An agreed-upon procedures engagement does not involve obtaining evidence for the purpose of the practitioner expressing an opinion or an assurance conclusion in any form.”

PIOB Public Interest Issues Relating to ISRS 4400 (Revised)
(Issued, February 2020)

Public Interest Issues	IAASB's Decisions
<p><i>Professional Judgment</i></p> <p>It would be helpful to explain more clearly the extent by which professional judgement is applied when performing an AUP versus an assurance engagement. The IAASB has drafted a text which explains the difference between an assurance engagement and an AUP.</p> <p>The initial proposal to exclude professional judgment in the execution of an AUP was withdrawn in the final text. As recommended, the final standard requires applying professional judgment throughout all the stages of an AUP.</p>	<p>The exercise of professional judgement in an AUP engagement has been considered and addressed as explained in paragraphs 20-24 of this Basis for Conclusions document. The IAASB notes that the final standard satisfies the public interest issue of the PIOB in this regard.</p>
<p><i>Transparency in disclosing the non-independence of the practitioner</i></p> <p>The AUP requires the practitioner to be objective but not independent.</p> <p>Whenever independence is not required, it would be beneficial to disclose whether the practitioner is independent or not, for transparency purposes.</p> <p>The final text requires the practitioner to disclose independence or lack of independence.</p>	<p>The final text of the standard requires, in paragraph 30(l), that the AUP report includes the following with respect to independence:</p> <ul style="list-style-type: none"> • 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, for the purpose of the engagement, there are no independence requirements with which the practitioner is required to comply; or • 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. <p>The practitioner is required to be objective in accordance with relevant ethical requirements, but may or may not be required to also comply with specific independence requirements. In the absence of independence requirements for AUP engagements, there are no criteria against which the practitioner can determine whether the practitioner is, or is not, independent for the purpose of the AUP engagement.</p>

	<p>Accordingly, disclosure in the AUP report that the practitioner is, or is not independent, may be confusing to users. The focus should rather be on whether or not the practitioner is required to comply with specific independence requirements and confirm such in the AUP report.</p> <p>If there are no requirements for the practitioner to comply with specific independence requirements (either 'external' requirements or agreed in the Terms of Engagement), it is the IAASB's view that a simple statement that the practitioner is not required to comply with independence requirements is sufficient. Such a statement would also be an alert to intended users who may presume that the practitioner is 'independent.'</p> <p>The IAASB has included additional application material (paragraphs A37 and A38) for the practitioner to consider, during the engagement acceptance and continuance process, whether a discussion with the engaging party pertaining to the practitioner's compliance with certain identified independence requirements may be appropriate. Based on the discussion with the engaging party, the practitioner may agree to include in the terms of the engagement that the practitioner will comply with relevant independence requirements. In such a circumstance, the agreed-upon procedures report would include a statement that the practitioner is required to comply with independence requirements and identify the relevant independence requirements.</p>
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