

ISRS 4400 (REVISED) AGREED-UPON PROCEDURES

WEBINAR MATERIAL: **13 AUGUST 2020**

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MODULE 1: INTRODUCTION

1. GENERAL

Clients may not need an audit, but they may find that Agreed-upon procedures (AUPs) engagements are a very useful and valuable non-audit service which is available for SMEs. And practitioners can use AUPs to successfully grow their practices by tapping into the global need for increased accountability of both financial and non-financial information, e.g. around funding and grants, compliance, etc.

ISRS 4400 (Revised), Agreed-Upon Procedures Engagements, has been revised to respond to the growing demand for these engagements, particularly in relation to the need for increased accountability around funding and grants.

A broad range of stakeholders, such as regulators, funding bodies and creditors, use agreed-upon procedures reports for a variety of reasons. The revised requirements and application material promote consistency in the performance of agreed-upon procedures engagements, and include a number of enhancements.

During this webinar we will highlight key changes, including the exercise of professional judgement, compliance with independence requirements, engagement acceptance and continuance considerations, using the work of a practitioner's expert, and greater clarity and transparency in the agreed-upon procedures report.



Abbreviations used

AUP	-	Agreed-Upon Procedures
ISRS	-	International Standard on Related Services
IAASB	-	International Auditing and Assurance Standards Board
IESBA	-	International Ethics Standards Board for Accountants
IFAC	-	International Federation of Accountants
SME	-	Small and Medium Enterprise
IRBA	-	Independent Regulatory Board for Auditors

2. IAASB PRESS RELEASE

IAASB enhances ISRS 4400 to respond to evolving needs of stakeholders

3 April 2020

The International Auditing and Assurance Standards Board (IAASB) today released [International Standard on Related Services \(ISRS\) 4400 \(Revised\)](#), its revised standard for performing agreed-upon procedures engagements.

In an agreed-upon procedures engagement, the practitioner performs the procedures that have been agreed upon by the practitioner and the engaging party, and the practitioner communicates those procedures and the related findings in the agreed-upon procedures report. A wide range of stakeholders use agreed-upon procedures reports for a variety of reasons; for example, regulators, funding bodies, creditors and others ask for agreed-upon procedures reports to support or complement information, such as audited financial statements or loan or grant applications.

“Agreed-upon procedures engagements are widely used in many jurisdictions and the demand for such engagements continues to grow, particularly in relation to the need for increased accountability around funding and grants,” said Tom Seidenstein, IAASB chair. “This revised standard is responsive to such trends, relating to both financial and non-

financial subject matters, and the enhancements in the requirements and application material will promote consistency in the interpretation and performance of agreed-upon procedures engagements by practitioners.”

In addition to having been redrafted using the clarity drafting conventions to be consistent with other IAASB International Standards, some of the significant enhancements to ISRS 4400 (Revised), *Agreed-Upon Procedures Engagements*, include:

- Responding to the needs of stakeholders – Broadening the scope of the standard to meet demand for agreed-upon procedures engagements and introducing requirements and application material to address evolving engagement circumstances, such as the use of a practitioner’s expert in an agreed-upon procedures engagement.
- Providing transparency in the AUP report – Introducing requirements and application material to clarify whether or not the practitioner is required to comply with independence requirements and, if so, the determination and disclosure of the relevant independence requirements.
- Enhancing consistency in the performance of AUP engagements – Clarifying how professional judgment is exercised in an agreed-upon procedures engagement and introducing requirements and application material on engagement acceptance and continuance conditions and documentation.

ISRS 4400 (Revised) will be effective for AUP engagements for which the terms of engagement are agreed on or after January 1, 2022.

The IAASB also released an **ISRS 4400 (Revised) Fact Sheet** to provide implementation support in relation to the more significant changes to the standard and to help practitioners navigate and apply the revised standard. Please visit the [IAASB website](#).

About the IAASB

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). For copyright, trademark, and permissions information, please go to [permissions](#) or contact permissions@ifac.org.



The Revised ISRS 4400, Basis for Conclusions and Fact Sheet have been downloaded and are available to you as Source Documents

MODULE 2: THE BASICS OF AUPs

1. WHAT IS AN AUP ENGAGEMENT?

- It is where the practitioner provides a report based on factual findings regarding financial information
- No assurance is expressed
- Instead, users of the report assess for themselves the procedures and findings reported by the practitioner and draw their own conclusions from the work
- The report is not distributed publicly – it is restricted to those parties that have agreed to the procedures
- The engagement should be based on the IAASB's *ISRS 4400: Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

Formal definition as per ISRS 4400 paragraph 13:

An engagement in which a practitioner is engaged to carry out procedures to which the practitioner and the engaging party (and if relevant, other parties) have agreed and to communicate the procedures performed and the related findings in an agreed-upon procedures report.

2. WHEN IS IT APPROPRIATE TO USE AN AUP?

AUP engagements have the potential to be an attractive and fast-growing service offering to SMEs.

Clients may not need an audit, but may greatly benefit from an AUP engagements, e.g. to satisfy banking or vendor needs (for example, to advance a business transaction, or verify to management that certain financial reporting processes and controls are operating effectively).

AUPs can be performed on both financial and non-financial information, provided the auditor has adequate knowledge of the subject matter in question and reasonable criteria exist on which to base their findings.

AUP engagements may entail the practitioner performing certain procedures concerning individual items of financial data (for example, accounts payable, accounts receivable, purchases from related parties, and sales and profits of a segment of an entity), a financial statement (for example, a balance sheet) or even a complete set of financial statements.

A wide range of stakeholders use reports of factual findings for a variety of reasons and the demand for AUP engagements continues to grow. For many entities, the demand for AUP engagements may be driven in part by the growth in regulation and the need for increased accountability around funding and grants.

- For example, funding bodies may ask for a report of factual findings to support or complement information such as audited financial statements or grant applications.

For smaller entities, the increase in audit exemption thresholds in some jurisdictions may affect demand, prompting stakeholders to look for alternatives to audits.

- For example, banks may request a report of factual findings on receivables or inventory in place of audited financial statements. This more narrow focus may represent key areas of emphasis in support of lending agreements.

3. EXAMPLES OF AUPS

Also refer to ISRS paragraph A2

Financial subject matters relating to:

- The entity's financial statements or specific classes of transactions, account balances or disclosures within the financial statements.
- Eligibility of expenditures claimed from a funding program.
- Revenues for determining royalties, rent or franchise fees based on a percentage of revenues.
- Capital adequacy ratios for regulatory authorities.

Non-financial subject matters relating to:

- Numbers of passengers reported to a civil aviation authority.
- Observation of destruction of fake or defective goods reported to a regulatory authority. Data generating processes for lottery draws reported to a regulatory authority.
- Volume of greenhouse gas emissions reported to a regulatory authority

Other practical Examples of AUP engagements, **both on financial and non-financial information**, include:

- **Confirmation of compliance, e.g. completion of the CIPC Compliance Checklist**
- Due diligence when buying or selling a business
- Verifying cash balances
- Checking security balances
- Income tax provisions
- Accounts receivable/payable processes
- Special reviews of loan portfolios
- Reviews of internal control and environmental management systems
- Royalty agreements compliance
- Employer compliance/payroll audits
- Purchasing department compliance

Another example may be where the practitioner has been engaged to help the client evaluate the validity of their accounts payable at a certain date. Procedures may comprise:

1. Checking the addition of the trial balance of accounts payable prepared by the client at a specific date and comparing the total to the balance in the related general ledger account.
2. Comparing a list of major suppliers and the amounts owing at a specific date to the related names and amounts in the trial balance.
3. Obtaining suppliers' statements or requesting suppliers to confirm balances owing at a specific date, and comparing such statements or confirmations to the amounts in the trial balance. For amounts that do not agree, obtaining and reviewing reconciliations from the client.

4. BENEFITS OF AUPS

The value of an AUP engagement performed in accordance with ISRS 4400 results from:

- The practitioner’s compliance with professional standards, including relevant ethical requirements, and
- Clear communication of the procedures performed and the related findings.

More specific benefits include:

- AUP engagements offer flexibility, as the service can be tailored to different circumstances and focused on individual items of financial data. For example, management may seek support that certain disclosures required by applicable standards have been provided or request a report for due diligence on an acquisition.
- Users may request specific work be performed to satisfy financing or supplier needs. For example, validating the inventory balance, confirming the accounts payables balances, verifying cash balances, or the appropriate use of grant funds. External users can also specify the format of required reporting.
- Factual findings may be reported with respect to the effective operation of particular financial reporting processes and controls. For example, a public sector organization may request an AUP engagement to report upon compliance with controls related to a regulatory regime.
- A report of factual findings can be included as a supplement to the financial statements adding credibility and comfort to management and staff.

5. AUPS ON FINANCIAL AND NON-FINANCIAL INFORMATION

Also refer to ISRS paragraph A2

ISRS 4400 is directed toward engagements regarding financial information. However, it may provide useful guidance for engagements regarding non-financial information, which are becoming increasingly prevalent.

Internationally, AUP engagements are commonly performed on both financial and non-financial information for a variety of purposes due to regulation or demand. Examples of these include reports on:

By Regulation

- Specific historical financial information on a government-funded project or tender
- Capital adequacy ratios
- Reconciliations between different financial reporting frameworks
- Distributable retained earnings calculations
- Listed companies’ results announcements and statements contained in listing circulars and prospectuses

By Demand

- Due diligence when buying, selling, or merging a business or part thereof
- Comparison of revenues generated or turnover certificates to supporting documents where rentals due/commissions payable to another party is based on a percentage of revenue
- Internal controls over financial reporting or corporate governance requirements

- Bank loan covenants
- Inventory balances and inventory checking processes
- Revenue and accounts receivable balances
- Greenhouse gas emissions
- Royalty agreements

MODULE 3: THE REVISED ISRS 4400 IN A NUTSHELL

1. EFFECTIVE DATE

This Revised ISRS 4400 is effective for agreed-upon procedures engagements for which the terms of engagement are agreed **on or after 1 January 2022**.

ISRS 4400 (Revised) will be effective for AUP engagements for which the terms of engagement are agreed **on or after 1 January 2022**.

For engagements covering multiple years, practitioners may wish to update the terms of engagement so that the AUP engagements will be conducted in accordance with the revised standard.

2. CONTENTS

This 33-page ISRS contains the following:

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3. OBJECTIVE

Refer to ISRS 4400 paragraph 12

The practitioner’s objectives are to:

- (a) Agree with the engaging party the procedures to be performed;
- (b) Perform the agreed-upon procedures; and
- (c) Communicate the procedures performed and the related findings in accordance with the requirements of **ISRS 4400 paragraphs 30 to 33**

4. REQUIREMENTS

Refer to ISRS 4400 paragraphs 14 to 35

NB = The practitioner SHALL have an understanding of the entire text of this ISRS, including its application and other explanatory material to understand its objectives and to apply its requirements properly.

Relevant ethical requirements

These requirements ordinarily comprise the IESBA Code, together with national requirements that are more restrictive, e.g. Independence requirements for auditors.

Professional judgment

The practitioner SHALL exercise professional judgment throughout the engagement.

Acceptance and Continuance

Only accept/continue once the circumstances are relevant, and confirm the terms of the engagement by obtaining a signed engagement letter – *refer to Appendix 1*.

Planning and Procedures

The practitioner should plan the work so that an effective engagement will be performed and the procedures agreed upon are carried out. The evidence obtained will be used as the basis for the report of factual findings. The procedures may include: inquiry and analysis, re-computation, comparison and other accuracy checks, observation, inspection, and obtaining confirmations.

The practitioner SHALL perform the procedures as agreed upon in the terms of the engagement.

The practitioner SHALL consider whether to request written representations.

The practitioner shall determine whether to use the work of an expert, and if so, meet the requirements in this regard.

Reporting

The report of factual findings will describe the engagement purpose and the agreed-upon procedures, so the reader can understand the nature and extent of the work performed.

Among other requirements this must include:

- The identification of the specific financial or non-financial information to which the agreed-upon procedures have been applied.
- A statement that the procedures performed were agreed upon with the recipient.
- Identification of the purpose for which the agreed-upon procedures were performed.
- A listing of the specific procedures performed.
- A description of the factual findings, including sufficient detail of errors and exceptions found.
- A statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed.
- A statement that had the auditor performed additional procedures, an audit, or a review, other matters might have come to light that would have been reported.
- A statement that the report is restricted to those parties that have agreed to the procedures to be performed.
- A statement (when applicable) that the report relates only to the elements, accounts, items, or financial and non- financial information specified and that it does not extend to the entity's financial statements taken as a whole.
- A statement that the practitioner complies with the ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding;

- With respect to independence:
 - 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;

Documentation

The practitioner SHALL include:

- Engagement letter;
- Nature, timing and extent of the AUPs performed; and
- The findings resulting from the AUPs performed.

5. APPLICATION MATERIAL

The practitioner should refer to these paragraphs as it provides lots of explanations and examples on how to implement the requirements set out in the body of the ISRS.

6. APPENDICES

The revised ISRS 4400 contains the following appendices:

Appendix 1: Illustrative Engagement Letter for an Agreed-Upon Procedures Engagement

Refer to IRSR 4400 pages 24 to 26

Appendix 2: Illustrations of Agreed-Upon Procedures Reports

Refer to IRSR 4400 pages 27 to 31

Illustration 1 – No exceptions were found

- No expert was used by the practitioner
- No independence requirements with which the practitioner is required to comply

Illustration 2 – Exceptions were found

- Expert was used by the practitioner
- The practitioner is the auditor of the financial statements of the engaging party - it was agreed that there are independence requirements with which the practitioner is required to comply

MODULE 4: SIGNIFICANT CHANGES TO ISRS 4400

1. SCOPE AND RESPONSIBILITIES

The main motivation behind this change was to broaden the scope of the standard to meet demand for agreed-upon procedures engagements.

- The scope now covers AUP engagements on both financial and non-financial subject matters.
- New requirements and application material clarify the practitioner's responsibilities in relation to the various parties involved in an AUP engagement such as the engaging party, the intended users of the AUP report and the responsible party for the subject matter on which the AUP are performed.
- Consistent with the clarity drafting conventions, the standard now includes an "Objectives" section. The objectives are intended to assist the practitioner in understanding what needs to be accomplished in an AUP engagement.
- The term "factual findings" has been replaced by the term "findings" which is defined as the factual results of agreed-upon procedures performed. In addition, findings are capable of being objectively verified, and exclude opinions or conclusions in any form as well as any recommendations.

2. COMPLIANCE WITH INDEPENDENCE REQUIREMENTS

The main motivation behind this change was to clarify whether or not the practitioner is required to comply with independence requirements and, if so, the determination and disclosure of the relevant independence requirements.

- The revised standard does not include a precondition for the practitioner to be independent when performing an AUP engagement (the same as extant ISRS 4400).
- However, new requirements and application material recognize that, even when the practitioner may not be required (for example, by law or regulation, an ethics code or contract) to comply with independence requirements, the practitioner may agree with the engaging party that compliance with independence requirements is appropriate for the purpose of the AUP engagement.
- The AUP report is now required to include a statement on independence
 - The required statement depends on whether or not the practitioner is required to comply with identified independence requirements for the purpose of the AUP engagement.

3. PROFESSIONAL JUDGMENT

The main motivation behind this change was to clarify how professional judgment is exercised in an agreed-upon procedures engagement.

- New requirement for the practitioner to exercise professional judgment throughout the engagement, including in accepting, conducting and reporting on the AUP engagement, taking into account the circumstances of the engagement.
- New supporting application material to explain, and provide examples of, how professional judgment is exercised in an AUP engagement.

4. ENGAGEMENT ACCEPTANCE AND CONTINUANCE

The main motivation behind this change was to introduce requirements and application material on engagement acceptance and continuance conditions and documentation.

- Introducing new requirements in relation to engagement acceptance and continuance considerations, including
 - Understanding the purpose of the engagement, and declining the engagement if the practitioner becomes aware of any facts or circumstances indicating that the procedures are inappropriate for the purpose of the engagement;
 - Only accepting or continuing the engagement when certain conditions are met; and
 - Communicating with the firm if information is obtained that would have caused the firm to decline the engagement had that information been available earlier, so that necessary action can be taken.
- Introducing application material to support the new requirements, including:
 - Clarifying the specificity with which AUP and findings are described and describing which terms may or may not be appropriate in the context of a particular engagement; and
 - Highlighting that certain procedures may be prescribed by law or regulation. However, these will still be subject to the conditions of specificity referred to above.

5. USING THE WORK OF A PRACTITIONER'S EXPERT

The main motivation behind this change was to address evolving engagement circumstances, such as the use of a practitioner's expert in an agreed-upon procedures engagement.

- New requirements and application material provide guidance on how a practitioner's expert can assist the practitioner in an AUP engagement. In addition, if the work of a practitioner's expert is to be used:
- The practitioner must be able to be involved in the work of a practitioner's expert to an extent that is sufficient to take responsibility for the findings included in the agreed-upon procedures report; and
- The practitioner may refer to the work performed by a practitioner's expert in the AUP report, either voluntarily or in compliance with law or regulation. If so, the wording of the report shall not imply that the practitioner's responsibility for performing the procedures and reporting the findings is reduced because of the involvement of an expert.

6. THE AGREED-UPON PROCEDURES REPORT

The main motivation behind this change was to provide transparency in the AUP report.

- Enhanced transparency on:
 - The responsibilities of the various parties involved in an AUP engagement; and
 - Whether or not the practitioner is required to comply with independence requirements, and if so, the relevant independence requirements.
- In contrast with the extant standard, ISRS 4400 (Revised) does not require the practitioner to include a statement that the report is restricted to those parties that have agreed to the procedures to be performed. Such a restriction is now based on the discretion of the practitioner. New application material guides the practitioner in deciding whether to restrict the use or distribution of the AUP report.

- New reporting requirements and application material to address circumstances when a summary of findings is provided in the AUP report and when the practitioner is undertaking an AUP engagement together with another engagement.

MODULE 5: BONUS MATERIAL

1. GROWING YOUR PRACTICE WITH AGREED-UPON PROCEDURES ENGAGEMENTS

This is an interesting article written by an IFAC SMP Committee Member.

This publication is available to you as a Bonus Document

2. AUPs – A GROWTH AND VALUE OPPORTUNITY

This is an IFAC publication (issued in 201), but the information is still very relevant to AUPs.

This includes 6 Case Study Examples on:

1. Public Grant
2. Non-governmental organisation report
3. Financial information
4. Management financial and non-financial targets
5. Loan agreement covenants
6. Due diligence

This publication is available to you as a Bonus Document

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