

11 May 2020

Professor Roger Simnett AO
The Chair
Australian Auditing and Assurance Standards Board
PO Box 204 Collins Street West
Melbourne Vic 8007

Submission via www.auasb.gov.au

Dear Roger

Submission on Exposure Draft ED 01/20: ASRS 4400 Agreed-Upon Procedures Engagements

As the representatives of over 200,000 professional accountants in Australia, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia thank you for the opportunity to comment on the above Exposure Draft ("the ED").

Both professional bodies have been long term supporters of the IAASB's project to update the international standard on agreed-upon procedures (AUP) engagements. We welcome the finalisation and recent release of the revised international standard ISRS 4400 *Agreed-Upon Procedures Engagements*.

Therefore, we provide our overall support for the AUASB's proposals to align the current Australian standard with its new international equivalent, as set out in the ED. We believe the proposals will ensure that Australian requirements continue to remain harmonised with best practice internationally, while adequately accommodating specific Australian issues and circumstances.

We appreciate that the international standard has moved away from the extant Australian standard in a number of areas. However, we are satisfied that the new international requirements still permit Australian practitioners and their clients to observe more restrictive practices should the circumstances of their individual engagements make that appropriate. Therefore, we agree that there are no compelling reasons to amend the international standard for these matters.

Nevertheless, we do recommend that the AUASB consider the development of additional guidance to supplement that being prepared by the IAASB to support ISRS 4400. We expect many Australian practitioners will continue to implement the existing more onerous, but well accepted, requirements from extant ASRS 4400 on matters such as independence and restrictions on the use of reports. Guidance supporting these choices, drawn from what is currently included in ASRS 4400, will ensure that Australian practice in these areas remains appropriately consistent and does not suffer from any perceived decline in engagement quality.

We discuss these matters further in our responses to the specific questions raised by the AUASB, which are addressed in the **Attachment** to this letter.

If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) amir.ghandar@charteredaccountantsanz.com or Claire Grayston (CPA Australia) at claire.grayston@cpaaustralia.com.au.

Yours sincerely



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Attachment

Independence – Requirement

1. Do stakeholders support ED 01/20 not requiring independence for an AUP engagement? If not, why not?

We agree that an independence requirement does not necessarily provide value to users of an AUP engagement and should only be applied if it is required by them. In our view, requiring practitioners to be, and be seen to be, independent in all circumstances imposes unnecessary and costly preconditions that could preclude the provision of AUP engagements to clients where demonstrable independence benefits are less clear.

Notwithstanding this, we are aware that an independence requirement, equivalent to that applied to “other assurance engagements” by paragraph 17 of the extant ASRS 4400, is well supported within Australia as a means of adding value and credibility to these engagements. We also expect that many users and engaging parties will continue to specify independence requirements consistent with the extant standard. The ED adequately allows for this choice and the proposed disclosures surrounding independence are simple and clear. Therefore, we agree with the AUASB’s view that this change does not provide the AUASB with a compelling reason to amend the international requirements.

While we support the approach adopted in the ED, we also recommend that the AUASB include example independence wording suitable for use in the Australian environment in its material supporting the implementation of the revised standard. This would ensure that the standard continues to provide a clear framework for practitioners when users and engaging parties still wish independence requirements to be applied for an AUP engagement. It would also assist practitioners with the consistent application of independence when required, thereby assisting to ensure there is no perceived decline in quality arising from the implementation of the revised standard.

Such wording, drawn from the extant ASRS 4400 and updated for the current APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, should address both the engagement letter and AUP report and support decisions to adopt either an independence equivalent to “other assurance engagements” or modified independence for an AUP engagement.

2. Would stakeholders prefer to maintain the approach in extant ASRS 4400 whereby there is an independence requirement for the practitioner equivalent to the independence requirement applicable to ‘other assurance engagements’, unless the engaging party has explicitly agreed to modified independence requirements?

No – we consider that independence requirements should not be made mandatory and so support the approach adopted by the ED and ISRS 4400. However, as we noted in our response to Question 1, we recognise that many users and engaging parties may wish to continue to adopt the extant ASRS 4400 approach to independence voluntarily. Therefore, we encourage the AUASB to provide additional guidance material that would support this choice and to ensure consistency of its application.

- 3. Are there any other independence pre-condition options that stakeholders would suggest to the AUASB that are not covered by questions 1 and 2 above? Please provide details.**

Not applicable as we do not support an independence precondition.

- 4. If stakeholders do not support ED 01/20 not requiring independence for an AUP engagement, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?**

Not applicable as we do not support an independence precondition.

Independence – Reporting Requirements

- 5. Do stakeholders support ED 01/20 with the AUP report including statements addressing circumstances when the practitioner is or is not required to be independent? If not, why not?**

We support the inclusion of an appropriate statement about independence in the AUP report and believe that the ED's proposals set out at paragraph 30(l) are adequate for this purpose.

This is because we believe that a practitioner should not be required to make an independence determination when they are not required to be, or have not agreed to be, independent. Such a determination involves the practitioner in unnecessary work which serves no purpose. A statement that the engagement is not subject to independence requirements should be sufficient to guide users of the report in this matter.

However, if the practitioner is required to be or has agreed to be independent, such an assessment is necessary. Since these requirements will have been imposed by the engaging party or other users for a reason, it is important for the report to disclose the nature of the requirements against which this independence has been assessed and that these requirements have been complied with. Only then can the report adequately communicate the additional perceived credibility that the engaging party or other users are seeking to obtain by including independence requirements.

To this end, we recommend that the AUASB include guidance on wording for the most common independence options users and engaging parties may choose in its material supporting the implementation of the revised standard, as discussed in our responses to Questions 1 and 2.

- 6. If stakeholders support maintaining the approach adopted in extant ASRS 4400 in relation to independence (as outlined in question 2 above), do stakeholders support maintaining the approach in extant ASRS 4400 whereby the report is required to contain a statement that either ethical requirements equivalent to those applicable to Other Assurance Engagements have been complied with, including independence, or, if modified independence requirements have been agreed in the terms of the engagement, a description of the level of independence applied?**

Not applicable, as we support the approach taken by the ED as detailed in our response to Question 5.

7. Are there any other independence reporting options that are not covered by questions 5 and 6 above? Please provide details.

Not applicable, as we support the approach taken by the ED as detailed in our response to Question 5.

8. If stakeholders do not support ED 01/20 with the AUP report required to include statements addressing circumstances when the practitioner is or is not required to be independent, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?

Not applicable, as we support the approach taken by the ED as detailed in our response to Question 5.

Restriction on use

9. Do stakeholders support ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed, but rather the report containing a statement identifying the purpose of the report and that the report may not be suitable for another purpose? If not, why not?

In our separate submissions to the IAASB's ED on ISRS 4400 revised we both supported the approach that the international standard should permit, but not require, practitioners to impose report restrictions as a pragmatic approach to the need for an internationally workable standard. We also identified that without a report restriction, the report should provide a clear statement of purpose in order to ensure that the report was only relied upon by those for whom it was prepared.

Since the proposals in the ED allow for the practitioner to determine what restrictions are appropriate to the particular circumstances of the engagement and require the report to identify a clear statement of the purpose of the engagement, we support the proposals.

However, we also acknowledge that the established practice in Australia under paragraph 42 of extant ASRS 4400 is for report restrictions to be commonly applied for professional indemnity reasons, a situation that we do not see as likely to change. Since this option is permitted under the proposed standard, we agree that no compelling reasons exist to amend the international standard for adoption in Australia.

We acknowledge that the ED already provides some guidance on imposing report restrictions, and the IAASB may provide more in its forthcoming implementation guidance. Therefore, we encourage the AUASB to consider this guidance and, if necessary, supplement it with example wording from the extant ASRS 4400. Such guidance would promote consistency and assist to ensure that there is no perceived decline in quality from the implementation of the revised standard.

- 10. Would stakeholders prefer to maintain the approach in extant ASRS 4400 whereby the use of an AUP report is restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as users in the engagement letter. Under ASRS 4400, a restriction on use paragraph is required to be included in an AUP report.**

No, we consider that report restrictions do not need to be mandatory and support the approach taken by the ED. However, as we noted in our response to Question 9, we recognise that many Australian practitioners may wish to continue to adopt the extant ASRS 4400 approach to report restrictions voluntarily. Therefore, we encourage the AUASB to provide, if the IAASB guidance does not, additional material to support practitioners choosing to restrict the use of their AUP report.

- 11. Are there any other restriction on use options that stakeholders would suggest to the AUASB that are not covered by questions 9 and 10 above? Please provide details.**

Not applicable, as we support the approach taken by the ED as detailed in our response to Question 9.

- 12. If stakeholders do not support ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?**

Not applicable, as we support the approach taken by the ED as detailed in our response to Question 9.

Professional judgement

- 13. Do stakeholders support the way in which the exercise of professional judgement is dealt with in ED 01/20? If not, why not?**

We do not consider that the ED is as clear as the extant ASRS 4400 concerning the prohibition on the application of professional judgement during the performance of procedures in an AUP engagement. Nevertheless, we support harmonisation with the IAASB standard and accept the AUASB's view that the requirements in the ED, while more subtle in this respect, can achieve this prohibition.

However, since application of professional judgement in the performance of procedures is a critical element that distinguishes AUP engagements from assurance engagements, we recommend that the AUASB encourage the IAASB to develop clear guidance material on this matter to assist in ensuring consistent implementation of the revised standard.

This guidance could include clarification of the documentation needed to identify where and why the practitioner exercised professional judgment as a practical means of drawing more attention to the need to ensure that it is not exercised in the performance of the procedures.

If the forthcoming IAASB guidance does not provide additional clarity, then the AUASB should consider supplementing it to clearly explain that the prohibition on the use of professional judgement in the performance of procedures remains the same between the extant and revised standards.

Other matters

14. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?

We are not aware of any relevant laws and regulations that have not been properly addressed.

15. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

We are not aware of any relevant laws and regulations that have not been properly addressed.

16. Whether there are any principles and practices considered appropriate in maintaining or improving quality of related services engagements in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

One of the proposed changes is to shift the application from “assurance practitioner” in the extant standard to “practitioner”.

We appreciate that the ED has defined the term practitioner as “the individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm). Where this ASRS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used”.

This definition could be read as suggesting that only accountants in public practice are able to complete AUP engagements, especially given its references to engagement partners and teams (terms it also defines). This is consistent with the IAASB and AUASB Glossary’s definition of “practitioner” as “professional accountant in public practice”

However, the AUASB has a broader standard setting remit than that of the IAASB. The AUASB is not limited to setting standards for the accountancy profession, and we note that AUASB Standards are legitimately used by non-accountants, such as Greenhouse and Energy Auditors.

We support the current application of ASRS 4400 which applies to all practitioners who are individuals or organisations involved in the provision of assurance services, whether in public practice, industry commerce or the public sector, not just those who are in public practice.

Therefore, we recommend that the AUASB reconsider either the definition of “practitioner” or its application guidance to make it clear that it can also cover those in industry, commerce and the public sector who wish to undertake these engagements, consistent with ASRS 4400’s current

definition of “assurance practitioner”. However, this should not be done by reusing the term “assurance practitioner” which we agree is unhelpful in a non-assurance standard.

The use of the broader term could mean that the understanding of the necessary skill sets and evidence-based issues may be less clear to those without an assurance background who take on AUP engagements.

Therefore, we recommend that the AUASB review the forthcoming IAASB guidance to ensure practitioners are reminded of their ethical obligations to address these issues appropriately. Direction to guidance about objective and scientific facts, such as that included in Appendix 1 of [APES 215 Forensic Accounting Services](#) may be of additional assistance.

17. What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:

- a. **Where those costs are likely to occur;**
- b. **The estimated extent of costs, in percentage terms (relative to related services fee); and**
- c. **Whether expected costs outweigh the benefits to the users of related services?**

We believe that the benefits of maintaining international harmonisation of these requirements can be achieved without impacting the perceived quality of these engagements in Australia. Allowing the implementation of independence requirements that are appropriate to the needs of users and engaging parties will remove any unnecessary costs arising from making an independence assessment and so increase the ability of many practitioners to offer a wider variety of services to their clients. In addition, providing the option of allowing practitioners to restrict the use of their reports still enables them to access the appropriate protections afforded by professional indemnity.

18. Are there any other significant public interest matters that stakeholders wish to raise?

None of which we are aware.