

11 May 2020

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

Dear Roger

**Re: Exposure Draft ED01/20 Proposed Standard ASRS 4400 Agreed-Upon  
Procedure Engagements**

On behalf of the Institute of Public Accountants, I submit our review of Exposure Draft ED01/20 *Proposed Standard ASRS 4400 Agreed-Upon Procedure Engagements*.

The IPA has serious concerns in relation to the proposals for agreed-upon procedure engagements.

The IPA is concerned that reports issued by accounting firms are often used in a manner that implies the objectivity, independence and other characteristics of assurance engagements despite the actual nature of the engagement.

The IPA believes AUP engagements are often used as “assurance light engagements” that enable engaging parties to use the resulting reports in an advocacy manner to support the engaging party’s position or proposed action. The AUP engagements are able to be used in an advocacy manner by engaging parties as such reports are “third party” reports and benefit from the “halo” effect of the engagements being carried by audit firms. The implication being that the audit firms are independent in undertaking AUP engagements. It is naïve to consider the appointment of assurance firms to undertake AUP engagements does not arise from “brand association” as both the provider of assurance services and the associate implied independence.

The potential for “misuse” of AUP engagements is compounded by the relatively meagre engagement acceptance guidance, particularly when compared to ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The lack of extensive engagement acceptance criteria increases the potential use of AUP engagements and their associated reports. This lack of guidance is aggravated by the proposed withdrawal of Appendices 1 and 2 of the existing standard and the application guidance at A2 of the proposed standard which are in fact often carried out as assurance engagements.

The IPA believes the proposed changes would substantially exacerbate the risk of misuse of AUP engagements as a result of the weaker independence requirements of the proposed standard and the lifting of the restrictions on distribution.

We are considered with the implications of the proposed changes to AUP engagements have on ASRS 4450 *Comfort Letters* as such engagements are characterised as AUP engagements.

The IPA believes the proposed revised standard is not in the best interest of the public or the profession and risks further damage the credibility of assurance practitioners.

The IPA considers that the AUASB should pursue new proposals to enhance the existing ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Finding*. We find little merit, in the AUASB pursuing alignment with ISRS 4400.

Our comments and responses to the questions in the Exposure Draft are set out in the appendix.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca ([stephenlagreca@aol.com](mailto:stephenlagreca@aol.com)) or Mr Colin Parker ([colin@gaap.com.au](mailto:colin@gaap.com.au)) GAAP Consulting.

Yours sincerely



Vicki Stylianou  
Group Executive, Advocacy & Technical  
Institute of Public Accountants

### **About the IPA**

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA recently merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

## **Appendix**

### ***Independence – Requirements (Refer paragraph 9(a) of this Explanatory Memorandum for more information)***

#### **Question 1**

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

#### **IPA response**

While the IPA believes there is no theoretical requirement for the independence in AUP engagements (subject to appropriate disclosure and restrictions on use), the IPA considers as the objective of many AUP engagements is to have a third party to undertake procedures and make findings there is an implicit value attributed to the perceived independence of that third party. The IPA is concerned without restrictions on distribution it is inappropriate to omit an independence requirement.

#### **Question 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 to “other assurance engagements”, unless the engaging party has explicitly agreed to modified independence requirements?*

#### **IPA response**

The IPA supports the retention of the current ASRS 4400 independence requirement. However, the IPA believes the current independence reporting requirements should be enhanced to explain when independence is waived by the engaging party(s) and why the nature of the relationship impairing independence, including details of any conflicts of interest.

#### **Question 3**

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

#### **IPA response**

As noted in our response to Question 2, the IPA believes that enhanced reporting of threats to independence including disclosure of conflicts of interest should be disclosed, where an engaging party waives independence requirements.

#### **Question 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)?*

#### **IPA response**

The IPA believes there are compelling reasons not to adopt the ISRS 4400 without making significant amendments in relation to independence as noted in our covering letter and responses to Questions 1-3.

***Independence – Reporting Requirements (Refer paragraph 9(b) of this Explanatory Memorandum for more information)***

#### **Question 5**

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

#### **IPA response**

As noted in our response to Questions 2-3 the IPA believes that where a practitioner is not independent, the reporting requirements should include a statement as to what circumstances impair independence, including the nature of any conflicts of interest.

#### **Question 6**

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

#### **IPA response**

As noted in our response to Question 5, the IPA believes that where a practitioner is not independent, the reporting requirements should include a statement as to what circumstances impair independence, including the nature of any conflicts of interest.

#### **Question 7**

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

## **IPA response**

As noted in our response to Question 5, the IPA believes that where a practitioner is not independent, the reporting requirements should include a statement as to what circumstances impair independence, including the nature of any conflicts of interest.

## **Question 8**

*If stakeholders do not support ED 01/20 with the AUP report required to include statement 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 01/20 (based on revised ISRS 4400)?*

## **IPA response**

The IPA believes there are compelling reasons not to adopt the ISRS 4400 without making significant amendments in relation to independence reporting as noted in our covering letter and responses to Questions 1-3 and Question 5.

***Restriction on use (Refer paragraph 9(c) of this Explanatory Memorandum for more information***

## **Question 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?*

## **IPA response**

The IPA believes the changes to independence requirements together with dropping the guidance in the extant Appendices 1 and 2, the inconsistent guidance in paragraph A2 of the IFRS 4400 and the inadequate engagement acceptance criteria exacerbate our concerns with adoption of IFRS 4400.

As such, the IPA does not support the changes on restriction of distribution proposed by ISRS 4400.

## **Question 10**

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

## **IPA response**

The IPA would support the retention on the extant ASRS 4400 in relation to restriction of use.

## **Question 11**

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

## **IPA response**

The IPA has no comments on any other restriction on use.

## **Question 12**

*If stakeholders do support ED 01/20 not requiring the restriction of the AUP reports 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)?*

## **IPA response**

As noted in our covering letter, the IPA has serious concerns with the potential misuse of AUP reports.

We believe the changes to independence requirements, together with dropping the guidance in the extant Appendices 1 and 2, the inconsistent guidance in paragraph A2 of the IFRS 4400 and the inadequate engagement acceptance criteria will exacerbate these concerns.

These concerns are compounded by inadequate independence reporting requirements. As such the IPA believes there are compelling reasons to modify ISRS 4400.

***Professional Judgement (Refer paragraph 9(d) of this Explanatory Memorandum for more information)***

## **Question 13**

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

## **IPA Response**

The IPA has no comment on the way exercise of professional judgement is dealt with in ED 01/20.

## *Other Questions*

### **Question 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?*

#### **IPA response**

The IPA is not aware of any reference to law or regulation that has been omitted from the proposed revised standard.

### **Question 15**

*Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?*

#### **IPA response**

The IPA is unaware of any law or regulation that would impede the application of the proposed standard.

### **Question 16**

*Whether there 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?*

#### **IPA response**

The IPA has expressed concerns on the use of AUP reports in our covering letter.

It is the IPA's view the adoption of revised ISRS 4400 without significant amendment will only exacerbate these concerns and therefore the adoption of proposed ISRS 4400 without significant amendment is not in the best interest of users or the Australian economy.

### **Question 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 audit fee);  
and*
- (c) Whether expected costs outweigh the benefits to the users of audit services?*

### **IPA response**

The IPA is not in the position to benefit on the costs/benefits of the adoption of the revised ISRS 4400.

### **Question 18**

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

### **IPA response**

The IPA has expressed concerns on the use of AUP reports in our covering letter.

It is the IPA's view the adoption of revised ISRS 4400 without significant amendment will only exacerbate these concerns and therefore the adoption of proposed ISRS 4400 without significant amendment is not in the best interest of users or the Australian economy.

\*\*\*\*\*