

## Board Meeting Agenda

3 December 2020

9:15 am to 4.45 pm

CA ANZ, Auckland Conference Centre, 12-16 Nicholls Lane, Parnell, Auckland

Est. Time	Item	Topic	Objective		Page
<b>A: NON-PUBLIC SESSION</b>					
10.30 am	Morning tea				
<b>B: PUBLIC SESSION</b>					
10.45 am	<b>3</b>	<b><u>Discussion Paper Fraud and Going Concern</u></b>			
	3.1	Board meeting summary paper	Consider	Late Paper	-
	3.2	Draft response	Approve	Late Paper	-
	3.3	IAASB discussion paper	Note	Late Paper	-
	3.4	Feedback received during roundtables	Note	Late Paper	-
11.45 am	<b>4</b>	<b><u>Meet with guests</u></b>			
	4.1	Board meeting summary paper	Note	Late Paper	-
12:30 pm	Lunch				
1:15 pm	<b>5</b>	<b><u>Agreed upon procedures</u></b>			
	5.1	Board meeting summary paper	Consider	Paper	
	5.2	AUASB compelling reason test	Note	Paper	
	5.3	AUASB ASRS 4400	Note	Paper	
2:15 pm	<b>6</b>	<b><u>Annual improvements update</u></b>			
	6.1	Board meeting summary paper	Note	Paper	
	6.2	Draft ITC and ED	Consider	Paper	
2.45 pm	Afternoon tea				
3.10 pm	<b>7</b>	<b><u>Compelling reason and harmonisation policy</u></b>			
	7.1	Board meeting summary paper	Note	Paper	
	7.2	Marked up Policy Document	Consider	Paper	
	7.3	Clean Policy Document	Note	Paper	
.45 pm	<b>8</b>	<b><u>Prospective financial information</u></b>			
	8.1	Update	Discuss	Verbal	
4.00 pm	<b>9</b>	<b><u>Environmental scanning</u></b>			
	9.1	International Update	Note	Paper	
	9.2	Domestic Update	Note	Paper	
4.15 pm	<b>10</b>	<b><u>Closing</u></b>			

Next meeting: 10 February 2021 – Wellington

NZASB-NZAuASB Joint Meeting 11 February 2021 – Morning ONLY–Wellington

## NZAuASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 5.1

**Meeting date:** 3 December 2020

**Subject:** Agreed-Upon Procedures Engagements

**Date:** 16 November 2020

**Prepared By:** Sharon Walker

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**Action Required**

**For Information Purposes Only**

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### **Agenda Item Objectives**

1. The objective of this agenda item is for the Board to:
  - Determine whether to make compelling reason changes to the proposed AUP engagement standard.

### **Matters for consideration**

2. At its October 2020 meeting, the Board considered submissions received from stakeholders on the New Zealand exposure draft of an agreed-upon procedures engagement standard based on the international standard.
3. The AUASB has approved the international standard for adoption in Australia with some limited “compelling reason” changes. These include:
  - a restriction on use requirement that ties back to the terms in the agreed-upon procedures engagement;
  - amendments to the illustrative engagement letter to include situations where the practitioner is required to be independent.
  - Adding a statement to the agreed-upon procedures report indicating that a practitioner is always objective when performing an agreed-upon procedures engagement.
  - Adding, as an appendix, a table of differences between assurance engagements and agreed-upon procedures engagements.
4. In considering the need to mandate a restriction on use of the agreed-upon procedures report, in harmonisation with the AUASB, Board members continued to express varying views. In considering the other AUASB changes, the Board was generally of the view that each change individually was not a significant change. However, in reflecting on the AUASB changes as a package, taking into account the public interest consideration that the agreed-upon procedures engagement is misunderstood and the report may be used

inappropriately, staff was asked to prepare a compelling reason change analysis for the changes as a group.

5. We have presented to the Board:
  - the compelling reason tests prepared for the AUASB (see agenda item 5.2); and
  - the draft standard approved, subject to the outcome of the NZAuASB discussions, by the AUASB (see agenda item 5.3). The purpose of including the AUASB standard is to show the proposed wording.
6. The compelling reason test takes into consideration the rationale for the proposed modification, whether:
  - The international standard is not consistent with NZ regulatory arrangements; or
  - The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ.
7. We consider that the international standard is consistent with principles and practices that are considered appropriate in New Zealand. We have heard from some Board members the concern that users do not understand the agreed-upon procedures report and may inappropriately take assurance from it. The view of these Board members is that agreed-upon procedures reports should be restricted.
8. The international standard permits but does not require the agreed-upon procedures report to be restricted as to use or distribution. Paragraph A53 of the international standard provides factors that the practitioner may consider in deciding whether to restrict the distribution or use of agreed-upon procedures reports, for example, an elevated risk of users other than the intended users misunderstanding the purpose of the agreed-upon procedures engagement or misinterpreting the findings.
9. Outright prohibition on distribution or use to parties other than the engaging party may be unduly restrictive. Agreed-upon procedures reports are increasingly required by regulators and funding agencies, or used in the public sector, for example, agreed-upon procedures reports that a public sector funder has required from funding recipients may be used by the auditor in performing the statutory audit. Requiring a restriction on use in this circumstance reduces the usefulness of the report, causing confusion and delays in rights to access. We believe it is in the public interest that those who need to use the report are able to do so.
10. Further, we consider the decision about who the report should be made available to and under what circumstances is a risk management consideration for the practitioner and depends on the circumstances of the engagement.
11. The international standard requires the agreed-upon procedures report to:
  - Identify the purpose of the AUP report;
  - Include a statement that the report may not be suitable for another purpose;
  - Describe an AUP engagement; and
  - Include a statement that an agreed-upon procedures engagement is not an assurance engagement and that the practitioner does not express an opinion or a conclusion.

12. The international standard requires the practitioner to comply with relevant ethical requirements, including the fundamental principles, and discusses how, at a minimum, the practitioner is required to be objective when performing an agreed-upon procedures engagement. It also acknowledges that other arrangements may specify requirements pertaining to independence. It does not require reference to objectivity in the agreed-upon procedures report.
13. Professional and Ethical Standard 1 sets out the fundamental principles of ethics for assurance practitioners (defined in the Code to include related services), reflecting the profession's recognition of its public interest responsibility. These principles establish the standard of behaviour expected of an assurance practitioner. The Code is intended to be applied in a holistic manner with no one part of the Code having more bearing than another. Calling out the practitioner's objectivity draws emphasis to the fundamental principle of objectivity over the other fundamental principles, all of which need to be considered and applied by the practitioner.
14. The amendments made by the AUASB relate to points raised in submissions to the IAASB and have all been duly considered by the IAASB in finalising ISRS 4400. Further these points were not raised by stakeholders in New Zealand. We therefore consider they have been duly addressed through the international due process.
15. Further, we note the joint Boards discussion with the AUASB in October, specifically the following points regarding harmonisation:
  - In seeking harmonisation, the standards should be consistent or compatible to the extent that they do not result in barriers for users of the standards in the Trans-Tasman environment.
  - There may be instances where the standards will differ in the two jurisdictions because of country specific requirements and the public interest considerations in each country.
16. We also note the Board's position as a "standard-taker" with an emphasis on influencing international standard setting.
17. The staff continue to believe that there is not a compelling reason to change the international standard in New Zealand. Further, we consider the proposed agreed-upon procedures standard is consistent with the AUASB standard and that harmonisation on the AUASB changes is not in the public interest in New Zealand.

#### **Action Requested**

18. The Board is asked to consider the compelling reason changes made by the AUASB in finalising its agreed-upon procedures engagement standard in light of the points raised by staff and determine whether harmonisation on the AUASB changes is in the public interest in New Zealand.

#### **Material Presented**

Agenda item 5.1	Board Meeting Summary Paper
Agenda item 5.2	AUASB Compelling reason changes
Agenda item 5.3	AUASB draft standard (as approved with compelling reason changes)



## COMPELLING REASONS TEST FOR PROPOSED MODIFICATIONS TO ISRS 4400 *Agreed-Upon Procedures Engagements*

Confidential

### DISCLAIMER

This document contains draft proposals to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions and/or proposals to be contained in a published Exposure Draft or Auditing Standard. No responsibility is taken by the AUASB for the results of reliance, actions or omissions to act on the basis of any information contained in this document (including appendices), or for any errors or omissions in it.

## Objective:

To present compelling reasons, in accordance with the [Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board \(IAASB\) and Harmonisation with the Standards of the New Zealand Auditing and Assurance Standards Board \(NZAuASB\)](#) (August 2014), proposed by the AUASB to be made to modify IAASB standards.

<b>Proposed modification (1) to ISRS 4400</b>	
<p><b>Proposed modification</b></p> <p>The AUASB supports the proposed ED 4400 not including a precondition for the practitioner to be independent. However, in situations where the practitioner is independent, the example engagement letter does not contain example wording. To aid consistency in practise the AUASB ATG is proposing example independence wording in the AUP engagement letter where the practitioner is independent. There is no modification needed in the example AUP report as the example report already provides this example by way of footnote.</p> <p><i>Suggested modification to the first paragraph in the example engagement letter Appendix 1 (including additional footnote):</i></p> <p>[In performing the agreed-upon procedures engagement, we will comply with [describe the relevant ethical requirements], which does not require us to be independent / <u>In performing the agreed-upon procedures engagement, we will comply with [describe the relevant ethical requirements], including [describe the relevant independence requirements]</u><sup>1,2</sup>.</p>	
<b>Rationale for the proposed modification</b>	
<b>The international standard is not consistent with Australian regulatory arrangements.</b>	
<b>OR</b>	
<b>The international standard does not reflect principles and practices that are considered appropriate in Australia.</b>	The example engagement letter does not contain example wording of where the practitioner is independent. While being independent is not a requirement of the standard, the practitioner may still be independent, as such, it is considered beneficial to provide practitioners with example wording that would aid in consistency of practice.
<b>A. Consideration of compelling reason criteria where the international standard is not consistent with Australian regulatory requirements.</b>	
<b><u>Compelling reason criteria as per agreed Principles of Convergence</u></b>	<b><u>Consideration whether the proposed modification meets the criteria</u></b>
<b>1. The standard can be modified so as to result in a standard the application of</b>	N/A

<sup>1</sup> For example, if the APESB Code is the relevant ethical requirements and Part 4A of the APESB Code is the relevant independence requirements, this sentence may be worded along the following: ‘In performing the agreed-upon procedures engagement, we will comply with the ethical requirements of the Accounting Professional & Ethical Standards Board *Code of Ethics for Professional Accountants (including Independence Standards)* (APESB Code), including independence requirements in Part 4A of the APESB Code.’

<sup>2</sup> For example, if the IESBA Code is the relevant ethical requirements and Part 4A of the IESBA Code is the relevant independence requirements, this sentence may be worded along the following: “In performing the agreed-upon procedures engagement, we will comply with the ethical requirements of the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) and the independence requirements in Part 4A of the IESBA Code.”

<p>which results in effective and efficient compliance with the legal framework in Australia.</p>	
<p>2. The proposed modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.</p>	<p>N/A</p>
<p><b>B. Consideration of compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in Australia.</b></p>	
<p><b><u>Compelling reason criteria as per agreed Principles of Convergence</u></b></p>	<p><b><u>Consideration whether the proposed modification meets the criteria</u></b></p>
<p>1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the AUASB.</p>	<p>Even though being independent is not a requirement of the standard, the international standard still facilitates practitioners being independent; for example, where required by the engaging party or where the practitioner may already be independent as they are the statutory auditor. The modification is to the Appendices only and provides example wording where the practitioner is independent, such example text would promote consistency in practise.</p>
<p>2. The proposed modification results in a standard that is clear and that promotes consistent application by all practitioners. (For example, excluding options not relevant in Australia and New Zealand)</p>	<p>As above.</p>
<p>3. The proposed modification will promote significant improvement in audit quality in Australia (With improvement in audit quality being linked to one or more of the Applicable Elements in the IAASB's Framework for Audit Quality)</p>	<p>As above.</p>
<p>4. The relative benefits of the modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).</p>	<p>There is not expected to be any cost associated with the modification since the change is consistent with existing practice. The benefit is consistency in practice which is beneficial for intended users.</p>
<p>5. The proposed modification does not conflict with or result in lesser requirements than the international standard.</p>	<p>The standard facilitates practitioners being independent, so this modification does not conflict or lesser the requirements of the international standard.</p>
<p>6. The proposed modification overall does not result in the standard being overly complex and confusing.</p>	<p>No.</p>

<p><b>7. The proposed modification does not inadvertently change the meaning of the international standard wording by placing more onerous requirements on a practitioner in Australia than necessary to meet the intent of the international standard.</b></p>	<p>The standard facilitates practitioners being independent, so this modification does not change the meaning of the international standard wording. Additionally, this change is to the appendices only.</p>
<p><b>C. Conclusion</b></p>	
<p><b>Compelling reasons test met/not met?</b></p>	<p>The compelling reasons test has been met.</p>
<p><b>Does the Board agree that the proposed modification meets the compelling reason test, and that ISRS 4400 should be modified as described above?</b></p>	

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**COMPELLING REASONS TEST FOR PROPOSED MODIFICATIONS TO  
ISRS 4400 *Agreed-Upon Procedures Engagements***

**Confidential**

## Objective:

To present compelling reasons, in accordance with the [Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board \(IAASB\) and Harmonisation with the Standards of the New Zealand Auditing and Assurance Standards Board \(NZAuASB\)](#) (August 2014), proposed by the AUASB to be made to modify IAASB standards.

### Proposed modification (2) to ISRS 4400

#### *Proposed modification*

At the time of the AUASB response to the IAASB on the IAASB ED-ISRS 4400, the AUASB supported the proposed ED 4400 not including a precondition for the practitioner to be independent. However, the AUASB considered that ED 4400 should include an explicit reference to the fundamental principles of the Code of Ethics when reporting on AUP engagements, in particular as a minimum the practitioners' requirement to be Objective.

The requirement of paragraph 17 of ISRS 4400 is for the practitioner to comply with relevant ethical requirements, and there is application material associated referring to the IESBA Code which requires practitioners to comply with fundamental principles, including objectivity. This fundamental principle requires practitioners not to compromise their professional or business judgement due to bias, conflict of interest or the undue influence of others.

. While such a reference to objectivity is included in paragraph A14 of ASRS 4400, the AUASB agreed to modify the requirements of the Agreed-Upon Procedures Report to include a specific reference to objectivity (Aus 30(k) of ASRS 4400), and a corresponding update to the example illustrative Agreed-Upon Procedures Reports (Appendix 2 of ASRS 4400).

#### *Proposed amendment:*

- Delete paragraph 30(k) and replace with Aus 30(k) to include the underlined words:
  - A statement that the practitioner complies with the ethical requirements of the APESB Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding, including the fundamental principle of objectivity.
- We have complied with the ethical requirements in [describe the relevant ethical requirements], including the fundamental principle of being objective.

### Rationale for the proposed modification

**The international standard is not consistent with Australian regulatory arrangements.**

**OR**

**The international standard does not reflect principles and practices that are considered appropriate in Australia.**

While being independent is not a requirement of the standard, the Code of Ethics requires practitioners to comply with fundamental principles, including objectivity. As such, relevant ethical requirements which the practitioner is subject to would, at a minimum, require the practitioner to be objective when performing an agreed-upon procedures engagement. The example AUP report refers to compliance with ethical requirements but does not contain a statement about the practitioner needing to be objective. The AUASB considers that for consistency, user understandability, and

	transparency to the user of the practitioners ethical responsibilities a specific statement of objectivity should be included in the AUP report.
<b>D. Consideration of compelling reason criteria where the international standard is not consistent with Australian regulatory requirements.</b>	
<b><u>Compelling reason criteria as per agreed Principles of Convergence</u></b>	<b><u>Consideration whether the proposed modification meets the criteria</u></b>
3. The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in Australia.	N/A
4. The proposed modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	N/A
<b>E. Consideration of compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in Australia.</b>	
<b><u>Compelling reason criteria as per agreed Principles of Convergence</u></b>	<b><u>Consideration whether the proposed modification meets the criteria</u></b>
8. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the AUASB.	The requirement of paragraph 17 of ISRS 4400 is for the practitioner to comply with relevant ethical requirements, and there is application material associated referring to the IESBA Code requiring practitioners to comply with fundamental principles, including objectivity. The modification is to the Appendices only, is consistent with the body of the standard, and provides example wording consistent with existing principles and practices in Australia.
9. The proposed modification results in a standard that is clear and that promotes consistent application by all practitioners. (For example, excluding options not relevant in Australia and New Zealand)	As above.
10. The proposed modification will promote significant improvement in audit quality in Australia (With improvement in audit quality being linked to one or more of the Applicable Elements in the IAASB's Framework for Audit Quality)	Audit quality improved by clearly indicating the mindset and attitude the practitioner brings to the engagement.
11. The relative benefits of the modification outweigh the cost (with cost being compliance cost and the cost of differing	There is not expected to be any cost associated with the modification since the change is consistent with existing practice. The benefit is

<b>from the international standard, and benefit relating to audit quality).</b>	to enhance consistency in practice, which is beneficial for intended users.
<b>12. The proposed modification does not conflict with or result in lesser requirements than the international standard.</b>	The standard expects that practitioners are objective under the Code. Accordingly this modification does not conflict or lesser the requirements of the international standard.
<b>13. The proposed modification overall does not result in the standard being overly complex and confusing.</b>	No.
<b>14. The proposed modification does not inadvertently change the meaning of the international standard wording by placing more onerous requirements on a practitioner in Australia than necessary to meet the intent of the international standard.</b>	The standard facilitates practitioners being independent, so this modification does not change the meaning of the international standard wording. Additionally, this change is to the appendices only.
<b>F. Conclusion</b>	
<b>Compelling reasons test met/not met?</b>	The compelling reasons test has been met.
<b>Does the Board agree that the proposed modification meets the compelling reason test, and that ISRS 4400 should be modified as described above?</b>	

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**COMPELLING REASONS TEST FOR PROPOSED MODIFICATIONS TO  
ISRS 4400 *Agreed-Upon Procedures Engagements***

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## Objective:

To present compelling reasons, in accordance with the [Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board \(IAASB\) and Harmonisation with the Standards of the New Zealand Auditing and Assurance Standards Board \(NZAuASB\)](#) (August 2014), proposed by the AUASB to be made to modify IAASB standards.

### Proposed modification (3) to ISRS 4400

#### Proposed modification

At the time of the AUASB response to the IAASB on the IAASB's ED-ISRS 4400, the AUASB considered that the use of an AUP report should be restricted to parties that have agreed to the procedures performed or have been identified as intended users in the report. The IAASB finalised ISRS 4400 with there being no such requirement to restrict use. The rationale for the IAASB not having this restriction in the standard is because in some jurisdictions, it may be possible to restrict the use of the AUP report but not its distribution and in other jurisdictions, it may be possible to restrict the distribution of the AUP report but not its use. While the international standard addresses public interest needs by allowing flexibility in this regard (owing to jurisdictional differences), the AUASB considers that because AUP engagements are often mistakenly seen to be 'assurance light' engagements, from a public interest perspective, leaving the determination of whether or not to include such a restriction to practitioner's judgement may result in a lack of clarity, and accordingly may result in a misunderstanding of AUP engagements.

Considering this, the matters outlined in the proposed modifications below and the AUASB's original position at the time of the IAASB's ED, the AUASB considers that there is a compelling reason to amend the proposed standard to restrict the use of the report to those intended users as identified in the agreed-upon procedures report.

The AUASB notes that while the application material to ISRS 4400 uses the terms restriction on use/distribution together, there is a difference between restriction of use and restriction of distribution. The AUASB, when it last revised the Australian AUP standard, made a distinction between the use of an AUP report and the distribution of such a report. This distinction was deliberately included in the requirements of the Australian standard with reliance on that report effectively restricted to the intended users identified, even if the report is distributed to other parties. The purpose of this distinction was not to prevent distribution of a report per se, but to deter the use of that report by those other than the intended users who are identified in the terms of engagement. Reliance on the AUP report is effectively restricted to the intended users identified, even if the report is distributed to other parties. Restriction of the distribution of a report is ultimately a risk management decision for the practitioner and the AUASB did not support a reference to restriction on distribution as this is often not practically possible. The AUASB considers that the current AUP approach in extant ASRS 4400 being a requirement to restrict use, but no such requirement to restrict distribution, works well in practice and continues to support there not being a requirement to restrict distribution of the AUP report. The AUASB however supports the application material in ISRS 4400 as this is seen as beneficial where practitioners may determine it appropriate to restrict the distribution.

The AUASB is suggesting that modifications to ISRS 4400 reflect the extant ASRS 4400 in relation to restriction on use.

There are multiple areas of the standard that require modification to facilitate restriction on use and the following Aus amendments are suggested:

- Aus 22(f): Engagement acceptance and continuance
- Aus 24(k): Contents of engagement letter
- Aus 30(s): Contents of AUP report

<ul style="list-style-type: none"> <li>• A39, A53, A54: Modification of AM regarding Restriction of Use/Distribution considerations</li> <li>• App 1: Example engagement letter wording</li> <li>• App 2: Example AUP report wording</li> </ul>	
<b>Rationale for the proposed modification</b>	
<b>The international standard is not consistent with Australian regulatory arrangements.</b>	
<b>OR</b>	
<b>The international standard does not reflect principles and practices that are considered appropriate in Australia.</b>	<p>A restriction of use requirement is an established practice in Australia and has been included in the extant ASRS 4400 for many years. The reasons to continue with the established practice in Australia include:</p> <ul style="list-style-type: none"> <li>• Since the AUP engagement is only required to be agreed with the engaging party, a restriction of use requirement is seen to be a public interest safeguard. While the international standard addresses public interest needs by allowing flexibility in this regard (owing to jurisdictional differences), the AUASB considers that from a public interest perspective, leaving the determination of whether or not to include such a restriction to practitioner’s judgement, may result in <b>inconsistencies in practice</b>. Variation in practice diminishes the effectiveness of reporting.</li> <li>• Such a restriction limits the likelihood that the AUP report will be used for a <b>wrong purpose</b>. There are multiple requirements and application material paragraphs in ISRS 4400 that demonstrates that an AUP engagement is for a very specific purpose with an intended audience and accordingly it is reasonable that such a report shouldn’t be expected to be used by others.</li> <li>• While the international standard facilitates a restriction on use paragraph being determined by practitioners, there is no requirement to restrict use. There may be a perceived <b>expectation gap</b> by users between an assurance engagement and an AUP engagement where an AUP engagement is seen to be ‘assurance light’. An AUP engagement is not assurance light – there is no assurance obtained at all in an AUP engagement. A restriction of use prevents</li> </ul>

	uninformed users from relying on a report being used as a form of assurance.
<b>G. Consideration of compelling reason criteria where the international standard is not consistent with Australian regulatory requirements.</b>	
<u><i>Compelling reason criteria as per agreed Principles of Convergence</i></u>	<u><i>Consideration whether the proposed modification meets the criteria</i></u>
<b>5. The standard can be modified so as to result in a standard, the application of which results in effective and efficient compliance with the legal framework in Australia.</b>	A restriction of use requirement is an established practice in Australia and has been included in the extant ASRS 4400 for many years since its first approval in 2011.
<b>6. The proposed modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.</b>	The international standard does not disallow a restriction on use clause, rather, ISRS 4400 leaves this open to jurisdictions providing application material to assist practitioners in making this determination. Accordingly, the proposed modification does not conflict or lessen the requirements in the international standard.
<b>H. Consideration of compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in Australia.</b>	
<u><i>Compelling reason criteria as per agreed Principles of Convergence</i></u>	<u><i>Consideration whether the proposed modification meets the criteria</i></u>
<b>15. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the AUASB.</b>	A restriction of use requirement is an established practice in Australia and has been included in the extant ASRS 4400 for many years since its first approval in 2011.
<b>16. The proposed modification results in a standard that is clear and that promotes consistent application by all practitioners. (For example, excluding options not relevant in Australia and New Zealand)</b>	Refer Section A1 and A2 above.
<b>17. The proposed modification will promote significant improvement in audit quality in Australia (With improvement in audit quality being linked to one or more of the Applicable Elements in the IAASB's Framework for Audit Quality)</b>	A restriction of use requirement is an established practice in Australia and has been included in the extant ASRS 4400 for many years. The reasons to continue with the established practice in Australia are included in the rationale for the proposed modification section in this Compelling Reason Test.
<b>18. The relative benefits of the modification outweigh the cost (with cost being compliance cost and the cost of differing</b>	There is not expected to be any cost associated with the modification since the change is consistent with existing practice. The benefit is consistency in practice which is beneficial for intended users.



<b>from the international standard, and benefit relating to audit quality).</b>	
<b>19. The proposed modification does not conflict with or result in lesser requirements than the international standard.</b>	The international standard does not disallow a restriction on use clause, rather, ISRS 4400 leaves this open to practitioner determination providing application material to assist practitioners in making this determination. Accordingly, the proposed modification does not conflict or lessen the requirements in the international standard.
<b>20. The proposed modification overall does not result in the standard being overly complex and confusing.</b>	No.
<b>21. The proposed modification does not inadvertently change the meaning of the international standard wording by placing more onerous requirements on a practitioner in Australia than necessary to meet the intent of the international standard.</b>	The international standard does not disallow a restriction on use clause, rather, ISRS 4400 leaves this open to practitioner determination providing application material to assist practitioners in making this determination. Accordingly, the proposed modification does not conflict or lessen the requirements in the international standard.
<b>I. Conclusion</b>	
<b>Compelling reasons test met/not met?</b>	The compelling reasons test has been met.
<b>Does the Board agree that the proposed modification meets the compelling reason test, and that ISRS 4400 should be modified as described above?</b>	

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**COMPELLING REASONS TEST FOR PROPOSED MODIFICATIONS TO  
ISRS 4400 *Agreed-Upon Procedures Engagements***

*Confidential*

## Objective:

To present compelling reasons, in accordance with the [Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board \(IAASB\) and Harmonisation with the Standards of the New Zealand Auditing and Assurance Standards Board \(NZAuASB\)](#) (August 2014), proposed by the AUASB to be made to modify IAASB standards.

<b>Proposed modification (4) to ISRS 4400</b>	
<p><b>Proposed modification</b></p> <p>At the time of the AUASB response to the IAASB on ED-ISRS 4400, the AUASB commented that the table of differences between assurance engagements and Agreed-Upon procedures engagements as currently included in extant ASRS 4400 is particularly beneficial to practitioners and users and could be invaluable to practitioners with a clear public interest benefit of keeping a clear distinction between these service offerings and avoiding any potential creep of an AUP turning into a quasi-assurance engagement.</p> <p>At the June 2020 AUASB meeting, it was agreed that the technical group would monitor IAASB implementation support particularly around the differences between assurance engagements and Agreed-Upon procedures engagements, with a view to issue Australian specific support if necessary.</p> <p>On reflection, based on the public interest benefit of this appendix and considering that the AUASB already has this table of differences in extant ASRS 4400, the ATG is proposing retaining this Appendix as an [Aus] Appendix to revised ASRS 4400, modified for changes in the revised standard.</p> <p><i>Proposed amendment:</i> Refer [Aus] Appendix 3 in ASRS 4400.</p>	
<b>Rationale for the proposed modification</b>	
<b>The international standard is not consistent with Australian regulatory arrangements.</b>	
<b>OR</b>	
<b>The international standard does not reflect principles and practices that are considered appropriate in Australia.</b>	While the introductory paragraphs 4-6 of proposed ASRS 4400 makes some distinction between assurance engagement and AUP engagements, a table of differences between assurance engagements and Agreed-Upon procedures engagements as currently included in extant ASRS 4400 is particularly beneficial to practitioners and users and could be invaluable to practitioners with a clear public interest benefit of keeping a clear distinction between these service offerings and avoiding any potential creep of an AUP turning into a quasi-assurance engagement.
<b>J. Consideration of compelling reason criteria where the international standard is not consistent with Australian regulatory requirements.</b>	
<u><i>Compelling reason criteria as per agreed Principles of Convergence</i></u>	<u><i>Consideration whether the proposed modification meets the criteria</i></u>

7.	<b>The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in Australia.</b>	N/A
8.	<b>The proposed modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.</b>	N/A
<b>K. Consideration of compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in Australia.</b>		
<b><u>Compelling reason criteria as per agreed Principles of Convergence</u></b>		<b><u>Consideration whether the proposed modification meets the criteria</u></b>
22.	<b>The application of the proposed modification will result in compliance with principles and practices considered appropriate by the AUASB.</b>	The proposed modification is an appendix and is intended for guidance only. The modification makes no changes to the requirements or application material of the standard, but rather demonstrates the clear distinction between these service offerings and avoiding any potential creep of an AUP turning into a quasi-assurance engagement – which is often the case in Australia where AUP engagements are seen as ‘assurance light’.
23.	<b>The proposed modification results in a standard that is clear and that promotes consistent application by all practitioners. (For example, excluding options not relevant in Australia and New Zealand)</b>	As per 1 above.
24.	<b>The proposed modification will promote significant improvement in audit quality in Australia (With improvement in audit quality being linked to one or more of the Applicable Elements in the IAASB’s Framework for Audit Quality)</b>	Modification promotes consistency in understanding and avoids any potential creep of an AUP turning into a quasi-assurance engagement .
25.	<b>The relative benefits of the modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).</b>	There is not expected to be any cost associated with the modification since the amendment is guidance only and does not create any new requirements.
26.	<b>The proposed modification does not conflict with or result in lesser requirements than the international standard.</b>	There is no change to the requirements or application material of the standard.

<p><b>27. The proposed modification overall does not result in the standard being overly complex and confusing.</b></p>	<p>The amendment demonstrates the clear distinction between service offerings and assists users in understanding the differences thereby reducing any potential confusion.</p>
<p><b>28. The proposed modification does not inadvertently change the meaning of the international standard wording by placing more onerous requirements on a practitioner in Australia than necessary to meet the intent of the international standard.</b></p>	<p>No.</p>
<p><b>L. Conclusion</b></p>	
<p><b>Compelling reasons test met/not met?</b></p>	<p>The compelling reasons test has been met.</p>
<p><b>Does the Board agree that the proposed modification meets the compelling reason test, and that ISRS 4400 should be modified as described above?</b></p>	

\*\*\*

Agenda item 5.3  
For information purposes

**ASRS 4400**  
(September 2020)

# **Standard on Related Services ASRS 4400** *Agreed-Upon Procedures Engagements*

Issued by the **Auditing and Assurance Standards Board**

Compelling reason changes made to the international standard by the AUASB in finalising ASRS 4400 are highlighted.



**Australian Government**  
**Auditing and Assurance Standards Board**

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### Contact Details

Auditing and Assurance Standards Board  
Podium Level 14, 530 Collins Street  
Melbourne Victoria 3000  
AUSTRALIA

Phone: (03) 8080 7400  
E-mail: [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)

**Postal Address:**  
PO Box 204, Collins Street West  
Melbourne Victoria 8007  
AUSTRALIA

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## PREFACE

### **Reasons for Issuing ASRS 4400**

The AUASB issues Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements* pursuant to the requirements of the legislative provisions and strategic direction explained below.

The AUASB is a non corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 227B of the ASIC Act, the AUASB may formulate assurance standards for other purposes.

Under the strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB develops auditing and assurance standards other than for historical financial information. The AUASB uses the standards of the International Auditing and Assurance Standards Board as a base on which to develop standards and incorporates additional requirements considered to be in the public interest. Accordingly, the AUASB has decided to issue ASRS 4400 using the equivalent International Standard on Related Services ISRS 4400 *Agreed-Upon Procedures Engagements*.

### **Main Features**

This Standard on Related Services represents the Australian equivalent of the IAASB's revised ISRS 4400 *Agreed-Upon Procedures Engagements* and will replace the current ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* issued by the AUASB in July 2013.

This Standard on Related Services contains differences from the current ASRS 4400, which are detailed in the Explanatory Memorandum accompanying the ASRS 4400.

The main features of this standard include:

- a) Professional judgement — new requirements and application material on the role of professional judgement.
- b) Independence — new requirements and application material on disclosures relating to the practitioner's independence.
- c) Engagement acceptance and continuance considerations — new requirements and application material addressing conditions for engagement acceptance and continuance.
- d) Use of a practitioner's expert — new requirements and application material to address the use of the work of a practitioner's expert, including the practitioner's responsibilities when using the work of an expert.
- e) Agreed-upon procedures report restrictions — clarification that use of the agreed-upon procedures report is restricted to intended users identified in the agreed-upon procedures report.
- f) ASRS 4400 also addresses non-financial subject matters and includes new definitions, requirements and application material on written representations, recommendations arising from the performance of agreed-upon procedures engagements, and documentation.

**Standard on Related Services ASRS 4400**  
*Agreed-Upon Procedures Engagements*

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**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) formulates this Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

This Standard on Related Services is to be read in conjunction with ASA 100 *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the AUASB Standards are to be understood, interpreted and applied.

Dated: 11 September 2020

R Simnett AO  
Chair - AUASB

**Standard on Related Services ASRS 4400**  
*Agreed-Upon Procedures Engagements*

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**Conformity with International Standards on Related Services**

This Standard on Related Services conforms with International Standard on Related Services ISRS 4400 *Agreed-Upon Procedures Engagements* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added/deleted/amended to this Standard on Related Services are identified with the prefix “Aus”.

Compliance with this Standard on Related Services enables compliance with ISRS 4400.

## STANDARD ON RELATED SERVICES ASRS 4400

### *Agreed-Upon Procedures Engagements*

The grey shaded materials relate to Australian Standard on Quality Control (ASQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance Engagements and Related Services Engagements*.

#### Application

Aus 0.1 This Australian Standard on Related Services (ASRS) applies to the performance of agreed-upon procedures engagements on financial or non-financial subject matters. (Ref: Para. A1–A2)

#### Operative Date

Aus 0.2 This ASRS is operative for agreed-upon procedures engagements for which the terms of engagement are agreed on or after 1 January 2022. (Ref: Para. A9) Early adoption of this ASRS is permitted prior to this date.

#### Introduction

##### Scope of this ASRS

1. This ASRS deals with:
  - (a) The practitioner's responsibilities when engaged to perform an agreed-upon procedures engagement; and
  - (b) The form and content of the agreed-upon procedures report.
2. [Deleted by the AUASB. Refer Aus 0.1]

##### *Relationship with ASQC1<sup>1</sup>*

3. [Deleted by the AUASB. Refer Aus 3.1]
- Aus 3.1 Quality control systems, policies and procedures are the responsibility of the firm. ASQC 1 applies to firms of assurance practitioners in respect of a firm's agreed-upon procedures engagements. The provisions of this ASRS regarding quality control at the level of individual agreed-upon procedures engagements are premised on the basis that the firm is subject to ASQC 1 or requirements that are at least as demanding. (Ref: Para. A3–A8)

##### The Agreed-Upon Procedures Engagement

4. In an agreed-upon procedures engagement, the practitioner performs the procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. The practitioner communicates the agreed-upon procedures performed and the

<sup>1</sup> Australian Standard on Quality Control ASQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance Engagements and Related Services Engagements*.

**Standard on Related Services ASRS 4400**  
***Agreed-Upon Procedures Engagements***

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related findings in the agreed-upon procedures report. The engaging party and other intended users consider for themselves the agreed-upon procedures and findings reported by the practitioner and draw their own conclusions from the work performed by the practitioner.

5. The value of an agreed-upon procedures engagement performed in accordance with this ASRS results from:
  - (a) The practitioner's compliance with professional standards, including relevant ethical requirements; and
  - (b) Clear communication of the procedures performed and the related findings.
6. [Deleted by the AUASB. Refer Aus 6.1]

Aus 6.1 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. [Aus] Appendix 3 provides a table of Differentiating Factors between Agreed-Upon Procedures Engagements and Assurance Engagements.

**Authority of this ASRS**

7. This ASRS contains the objectives of the practitioner in following the ASRS, which provide the context in which the requirements of this ASRS are set. The objectives are intended to assist the practitioner in understanding what needs to be accomplished in an agreed-upon procedures engagement.
8. This ASRS contains requirements, expressed using "shall", that are designed to enable the practitioner to meet the stated objectives.
9. In addition, this ASRS contains introductory material, definitions, and application and other explanatory material, that provide context relevant to a proper understanding of this ASRS.
10. The application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ASRS that assists in the application of the requirements.

**Effective Date**

11. [Deleted by the AUASB. Refer Aus 0.2]

**Objectives**

12. The practitioner's objectives in an agreed-upon procedures engagement under this ASRS 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 this ASRS.

**Definitions**

13. For purposes of this ASRS, the following terms have the meanings attributed below:

**Standard on Related Services ASRS 4400**  
***Agreed-Upon Procedures Engagements***

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- (a) Agreed-upon procedures – Procedures that have been agreed to by the practitioner and the engaging party (and if relevant, other parties). (Ref: Para. A10)
- (b) Agreed-upon procedures engagement – 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. (Ref: Para. A10)
- (c) Engagement partner – The partner or other person in the firm who is responsible for the engagement and its performance, and for the agreed-upon procedures report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
- (d) Engaging party – The party(ies) that engage(s) the practitioner to perform the agreed-upon procedures engagement. (Ref: Para. A11)
- (e) Engagement team – All partners and staff performing the agreed-upon procedures engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes a practitioner's external expert engaged by the firm or a network firm.
- (f) Findings – Findings are the factual results of agreed-upon procedures performed. Findings are capable of being objectively verified. References to findings in this ASRS exclude opinions or conclusions in any form as well as any recommendations that the practitioner may make. (Ref: Para. A12–A13)
- (g) Intended users – The individual(s) or organisation(s), or group(s) that the practitioner expects will use the agreed-upon procedures report. In some cases, there may be intended users other than those to whom the agreed-upon procedures report is addressed. (Ref: Para. A10)
- (h) Practitioner – 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.
- (i) Practitioner's expert – An individual or organisation possessing expertise in a field other than assurance and related services, whose work in that field is used to assist the practitioner in fulfilling the practitioner's responsibilities for the agreed-upon procedures engagement. A practitioner's expert may be either a practitioner's internal expert (who is a partner or staff, including temporary staff, of the practitioner's firm or a network firm) or a practitioner's external expert.
- (j) Professional judgement – The application of relevant training, knowledge and experience, within the context provided by this ASRS 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.
- (k) Relevant ethical requirements – Ethical requirements the engagement team is subject to when undertaking agreed-upon procedures engagements. These requirements ordinarily comprise the Accounting Professional & Ethical Standards Board (APESB)'s *Code of Ethics for Professional Accountants (including Independence Standards)* (APESB Code) together with national requirements that are more restrictive.
- (l) Responsible party – The party(ies) responsible for the subject matter on which the agreed-upon procedures are performed.

## **Requirements**

### **Conduct of an Agreed-Upon Procedures Engagement in Accordance with this ASRS**

14. The practitioner shall have an understanding of the entire text of this ASRS, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

#### *Complying with Relevant Requirements*

15. The practitioner shall comply with each requirement of this ASRS unless a particular requirement is not relevant to the agreed-upon procedures engagement, for example, if the circumstances addressed by the requirement do not exist in the engagement.
16. The practitioner shall not represent compliance with this ASRS unless the practitioner has complied with all requirements of this ASRS relevant to the agreed-upon procedures engagement.

### **Relevant Ethical Requirements**

17. The practitioner shall comply with relevant ethical requirements. (Ref: Para. A14–A20)

### **Professional Judgement**

18. The practitioner shall exercise professional judgement in accepting, conducting and reporting on an agreed-upon procedures engagement, taking into account the circumstances of the engagement. (Ref: Para. A21–A23)

### **Engagement Level Quality Control**

19. The engagement partner shall take responsibility for:
- (a) The overall quality of the agreed-upon procedures engagement including, if applicable, work performed by a practitioner's expert; and (Ref: Para. A24)
  - (b) The engagement being performed in accordance with the firm's quality control policies and procedures by:
    - (i) Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements; (Ref: Para. A25)
    - (ii) Being satisfied that the engagement team, and any practitioner's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to perform the agreed-upon procedures engagement;
    - (iii) Being alert for indications of non-compliance by members of the engagement team with relevant ethical requirements, and determining the appropriate actions if matters come to the engagement partner's attention indicating that members of the engagement team have not complied with relevant ethical requirements; (Ref: Para. A26)
    - (iv) Directing, supervising and performing the engagement in compliance with professional standards and applicable legal and regulatory requirements; and
    - (v) Taking responsibility for appropriate engagement documentation being maintained.
20. If the work of a practitioner's expert is to be used, the engagement partner shall be satisfied that the practitioner will be able to be involved in the work of a practitioner's expert to an



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extent that is sufficient to take responsibility for the findings included in the agreed-upon procedures report. (Ref: Para. A27)

**Engagement Acceptance and Continuance**

21. Before accepting or continuing an agreed-upon procedures engagement, the practitioner shall obtain an understanding of the purpose of the engagement. The practitioner shall not accept or continue the engagement if the practitioner is aware of any facts or circumstances indicating that the procedures the practitioner is being asked to perform are inappropriate for the purpose of the agreed-upon procedures engagement. (Ref: Para. A28–A31)
22. The practitioner shall accept or continue the agreed-upon procedures engagement only when: (Ref: Para. A28–A31)
  - (a) The engaging party acknowledges that the expected procedures to be performed by the practitioner are appropriate for the purpose of the engagement;
  - (b) The practitioner expects to be able to obtain the information necessary to perform the agreed-upon procedures;
  - (c) The agreed-upon procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations; (Ref: Para. A32–A36);
  - (d) The practitioner has no reason to believe that relevant ethical requirements will not be complied with;
  - (e) If the practitioner is required to comply with independence requirements, the practitioner has no reason to believe that the independence requirements will not be complied with; and (Ref: Para. A37–A38)

Aus 22(f) **The use of the agreed-upon procedures report can be restricted to those intended users to be identified in the agreed-upon procedures report.**

23. If the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take necessary action.

**Agreeing the Terms of the Engagement**

24. The practitioner shall agree the terms of the agreed-upon procedures engagement with the engaging party and record the agreed terms of engagement in an engagement letter or other suitable form of written agreement. These terms shall include the following: (Ref: Para. A39–A40)
  - (a) Identification of the subject matter(s) on which the agreed-upon procedures will be performed;
  - (b) The purpose of the engagement and the intended users of the agreed-upon procedures report as identified by the engaging party;
  - (c) If applicable, the responsible party as identified by the engaging party, and a statement that the agreed-upon procedures engagement is performed on the basis that the responsible party is responsible for the subject matter on which the agreed-upon procedures are performed;
  - (d) Acknowledgement of the relevant ethical requirements with which the practitioner will comply in conducting the agreed-upon procedures engagement;

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- (e) A statement as to whether the practitioner is required to comply with independence requirements and, if so, the relevant independence requirements; (Ref: Para. A37–A38)
  - (f) The nature of the agreed-upon procedures engagement, including statements that:
    - (i) An agreed-upon procedures engagement involves the practitioner performing the procedures agreed with the engaging party (and if relevant, other parties), and reporting the findings; (Ref: Para. A10)
    - (ii) Findings are the factual results of the agreed-upon procedures performed; and
    - (iii) An agreed-upon procedures engagement is not an assurance engagement and accordingly, the practitioner does not express an opinion or an assurance conclusion;
  - (g) Acknowledgement by the engaging party (and if relevant, other parties) that the agreed-upon procedures are appropriate for the purpose of the engagement; (Ref: Para. A10)
  - (h) Identification of the addressee of the agreed-upon procedures report;
  - (i) The nature, timing and extent of the procedures to be performed, described in terms that are clear, not misleading and not subject to varying interpretations; (Ref: Para. A41–A42)
  - (j) Reference to the expected form and content of the agreed-upon procedures report; and
- Aus 24(k) **A statement that the use of the agreed-upon procedures report will be restricted to those intended users to be identified in the agreed-upon procedures report.**
25. If the agreed-upon procedures are modified during the course of the engagement, the practitioner shall agree amended terms of engagement with the engaging party that reflect the modified procedures. (Ref: Para. A43)

*Recurring Agreed-Upon Procedures Engagements*

26. On recurring agreed-upon procedures engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of the engagement to be revised and whether there is a need to remind the engaging party of the existing terms of engagement. (Ref: Para. A44)

**Performing the Agreed-Upon Procedures**

27. The practitioner shall perform the procedures as agreed upon in the terms of the engagement.
28. The practitioner shall consider whether to request written representations. (Ref: Para. A45)

**Using the Work of a Practitioner’s Expert**

29. If the practitioner uses the work of a practitioner’s expert, the practitioner shall: (Ref: Para. A46–A47, A50)
- (a) Evaluate the competence, capabilities and objectivity of the practitioner’s expert;
  - (b) Agree with the practitioner’s expert on the nature, scope and objectives of that expert’s work; (Ref: Para. A48–A49)
  - (c) Determine whether the nature, timing and extent of the work performed by the practitioner’s expert is consistent with the work agreed with the expert; and

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**Agreed-Upon Procedures Engagements**

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- (d) Determine whether the findings adequately describe the results of the work performed, taking into account the work performed by the practitioner's expert.

**The Agreed-Upon Procedures Report**

30. The agreed-upon procedures report shall be in writing and shall include: (Ref: Para. A51)
- (a) A title that clearly indicates that the report is an agreed-upon procedures report;
  - (b) An addressee as set forth in the terms of the engagement;
  - (c) Identification of the subject matter on which the agreed-upon procedures are performed; (Ref: Para. A52)
  - (d) Identification of the purpose of the agreed-upon procedures report and a statement that the agreed-upon procedures report may not be suitable for another purpose; (Ref: Para. A53–A54)
  - (e) A description of an agreed-upon procedures engagement stating that:
    - (i) An agreed-upon procedures engagement involves the practitioner performing the procedures that have been agreed with the engaging party (and if relevant, other parties), and reporting the findings; (Ref: Para. A10)
    - (ii) Findings are the factual results of the agreed-upon procedures performed; and
    - (iii) The engaging party (and if relevant, other parties) has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement. (Ref: Para. A10)
  - (f) If applicable, the responsible party as identified by the engaging party, and a statement that the responsible party is responsible for the subject matter on which the agreed-upon procedures are performed;
  - (g) A statement that the engagement was performed in accordance with ASRS 4400;
  - (h) A statement that the practitioner makes no representation regarding the appropriateness of the agreed-upon procedures;
  - (i) A statement that the agreed-upon procedures engagement is not an assurance engagement and accordingly, the practitioner does not express an opinion or an assurance conclusion;
  - (j) A statement that, had the practitioner performed additional procedures, other matters might have come to the practitioner's attention that would have been reported;
  - (k) [Deleted by the AUASB. Refer Aus 30(k)]
- Aus 30(k) A statement that the practitioner complies with the ethical requirements, including the fundamental principle of objectivity, of the APESB Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding.
- (l) With respect to independence:
    - (i) 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

**Standard on Related Services ASRS 4400**  
**Agreed-Upon Procedures Engagements**

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- (ii) 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;
  - (m) A statement that the firm of which the practitioner is a member applies ASQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ASQC 1;
  - (n) A description of the procedures performed detailing the nature and extent, and if applicable, the timing, of each procedure as agreed in the terms of the engagement; (Ref: Para. A55–A57)
  - (o) The findings from each procedure performed, including details on exceptions found; (Ref: Para. A55–A56)
  - (p) The practitioner’s signature;
  - (q) The date of the agreed-upon procedures report;
  - (r) The location in the jurisdiction where the practitioner practices; and
- Aus 30(s) **A statement that the use of the report is restricted to intended users identified in the agreed-upon procedures report.**
31. If the practitioner refers to the work performed by a practitioner’s expert in the agreed-upon procedures report, 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. (Ref: Para. A58)
32. If the practitioner provides a summary of findings in the agreed-upon procedures report in addition to the description of findings as required by paragraph 30(o):
- (a) The summary of findings shall be described in a manner that is objective, in terms that are clear, not misleading, and not subject to varying interpretations; and
  - (b) The agreed-upon procedures report shall include a statement indicating that reading the summary is not a substitute for reading the complete report.
33. The practitioner shall date the agreed-upon procedures report no earlier than the date on which the practitioner completed the agreed-upon procedures and determined the findings in accordance with this ASRS.

**Undertaking an Agreed-Upon Procedures Engagement Together with Another Engagement**

34. The agreed-upon procedures report shall be clearly distinguished from reports on other engagements. (Ref: Para. A59)

**Documentation**

35. The practitioner shall include in the engagement documentation: (Ref: Para. A60)
- (a) The written terms of engagement and, if applicable, the agreement of the engaging party as to modifications to the procedures;
  - (b) The nature, timing and extent of the agreed-upon procedures performed; and
  - (c) The findings resulting from the agreed-upon procedures performed.

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## **Application and Other Explanatory Material**

### **Application of this ASRS** (Ref: Para. Aus 0.1)

- A1. Reference to “subject matters” in this ASRS encompasses anything on which agreed-upon procedures are performed, including information, documents, measurements or compliance with laws and regulations, as relevant.
- A2. Examples of financial and non-financial subject matters on which an agreed-upon procedures engagement may be performed include:
- Financial subject matters relating to:
    - The entity’s financial report or specific classes of transactions, account balances or disclosures within the financial report.
    - 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.

The above list is not exhaustive. Additional types of subject matters may arise as external reporting demands evolve.

### **Relationship with ASQC 1** (Ref: Para. Aus 3.1)

- A3. ASQC 1 deals with the firm’s responsibilities to establish and maintain its system of quality control for related services engagements, including agreed-upon procedures engagements. Those responsibilities are directed at establishing:
- The firm’s quality control system; and
  - The firm’s related policies designed to achieve the objective of the quality control system and its procedures to implement and monitor compliance with those policies.
- A4. Under ASQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:
- (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
  - (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.<sup>2</sup>

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<sup>2</sup> ASQC 1, paragraph 11.

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A5. A jurisdiction that has not adopted ASQC 1 in relation to agreed-upon procedures engagements may set out requirements for quality control in firms performing such engagements. The provisions of this ASRS regarding quality control at the engagement level are premised on the basis that quality control requirements adopted are at least as demanding as those of ASQC 1. This is achieved when those requirements impose obligations on the firm to achieve the aims of the requirements of ASQC 1, including an obligation to establish a system of quality control that includes policies and procedures that address each of the following elements:

- Leadership responsibilities for quality within the firm;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Human resources;
- Engagement performance; and
- Monitoring.

A6. Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement.

A7. Unless information provided by the firm or other parties suggests otherwise, the engagement team is entitled to rely on the firm's system of quality control. For example, the engagement team may rely on the firm's system of quality control in relation to:

- Competence of personnel through their recruitment and formal training.
- Maintenance of client relationships through acceptance and continuance systems.
- Adherence to legal and regulatory requirements through the monitoring process.

In considering deficiencies identified in the firm's system of quality control that may affect the agreed-upon procedures engagement, the engagement partner may consider measures taken by the firm to rectify the situation that the engagement partner considers are sufficient in the context of that agreed-upon procedures engagement.

A8. A deficiency in the firm's system of quality control does not necessarily indicate that an agreed-upon procedures engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the agreed-upon procedures report was not appropriate.

**Operative Date** (Ref: Para. Aus. 0.2)

A9. For terms of engagement covering multiple years, practitioners may wish to update the terms of engagement so that the agreed-upon procedures engagements will be conducted in accordance with this ASRS on or after the operative date.

**Definitions**

*Engaging Party and Other Intended Users* (Ref: Para. 13(a), 13(b), 13(d), 13(g), 24(f)(i), 24(g), 30(e)(i), 30(e)(iii))

A10. In some circumstances, the procedures may be agreed with intended users in addition to the engaging party. Intended users other than the engaging party may also acknowledge the appropriateness of the procedures.

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- A11. The engaging party may be, under different circumstances, the responsible party, a regulator or other intended user. References to the engaging party in this ASRS include multiple engaging parties when relevant.

*Findings* (Ref: Para. 13(f))

- A12. Findings are capable of being objectively verified, which means that different practitioners performing the same procedures are expected to arrive at equivalent results. Findings exclude the expression of an opinion or a conclusion as well as any recommendations that the practitioner may make.
- A13. Practitioners may use the term “factual findings” in place of “findings”, for example, in cases when the practitioner is concerned that the term “findings” may be misunderstood. This may be the case in jurisdictions or languages where the term “findings” may be understood as including results that are not factual.

**Relevant Ethical Requirements** (Ref: Para. 17)

*Objectivity and Independence*

- A14. A practitioner performing an agreed-upon procedures engagement is required to comply with relevant ethical requirements. Relevant ethical requirements ordinarily comprise the APESB Code, together with national requirements that are more restrictive. The APESB Code requires practitioners to comply with fundamental principles including objectivity, which requires practitioners not to compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others. Accordingly, relevant ethical requirements to which the practitioner is subject would, at a minimum, require the practitioner to be objective when performing an agreed-upon procedures engagement.
- A15. The APESB Code does not contain independence requirements for agreed-upon procedures engagements. However, national ethical codes, laws or regulations, other professional requirements, or conditions of a contract, program, or arrangement relating to the subject matter for the agreed-upon procedures engagement may specify requirements pertaining to independence.

*Non-Compliance with Laws and Regulations*<sup>3</sup>

- A16. Law, regulation or relevant ethical requirements may:
- (a) Require the practitioner to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.
  - (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.<sup>4</sup>
- A17. Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:
- (a) Law, regulation or relevant ethical requirements require the practitioner to report;
  - (b) The practitioner has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements; or

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<sup>3</sup> Relevant ethical requirements may indicate that non-compliance with laws and regulations includes fraud. See, for example, 360.5 A2 of the APESB Code.

<sup>4</sup> See, for example, paragraphs R360.36 to 360.36A3 of the APESB Code.

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(c) Law, regulation or relevant ethical requirements provide the practitioner with the right to do so.

- A18. The practitioner is not expected to have a level of understanding of laws and regulations beyond that necessary to be able to perform the agreed-upon procedures engagement. However, law, regulation or relevant ethical requirements may expect the practitioner to apply knowledge, professional judgement and expertise in responding to identified or suspected non-compliance. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.
- A19. In some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the practitioner's duty of confidentiality under law, regulation or relevant ethical requirements. In other cases, reporting identified or suspected non-compliance to an appropriate authority outside the entity would not be considered a breach of the duty of confidentiality under the relevant ethical requirements.<sup>5</sup>
- A20. The practitioner may consider consulting internally (e.g., within the firm or network firm), obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulations or would breach the duty of confidentiality).<sup>6</sup>

**Professional Judgement** (Ref: Para. 18)

- A21. Professional judgement is exercised in applying the requirements of this ASRS and relevant ethical requirements, and in making informed decisions about courses of action throughout the agreed-upon procedures engagement, as appropriate.
- A22. In accepting, conducting and reporting on an agreed-upon procedures engagement, professional judgement is exercised, for example, in:

Accepting the engagement

- Discussing and agreeing with the engaging party (and if relevant, other parties) the nature, timing and extent of the procedures to be performed (taking into account the purpose of the engagement).
- Determining whether engagement acceptance and continuance conditions have been met.
- Determining the resources necessary to carry out the procedures as agreed in the terms of the engagement, including the need to involve a practitioner's expert.
- Determining appropriate actions if the practitioner becomes aware of facts or circumstances suggesting that the procedures to which the practitioner is being asked to agree are inappropriate for the purpose of the agreed-upon procedures engagement.

Conducting the engagement

- Determining appropriate actions or responses if, when performing the agreed-upon procedures, the practitioner becomes aware of:

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<sup>5</sup> See, for example, paragraphs R114.1, 114.1 A1 and R360.37 of the APESB Code.

<sup>6</sup> See, for example, paragraph 360.39 A1 of the APESB Code.



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- Matters that may indicate fraud or an instance of non-compliance or suspected non-compliance with laws or regulations.
- Other matters that cast doubt on the integrity of the information relevant to the agreed-upon procedures engagement or that indicate that the information may be misleading.
- Procedures that cannot be performed as agreed.

Reporting on the engagement

- Describing the findings in an objective manner and in sufficient detail, including when exceptions are found.

A23. In conducting the agreed-upon procedures engagement, the need for the practitioner to exercise professional judgement when performing the agreed-upon procedures is limited for reasons including:

- An agreed-upon procedures engagement involves the performance of procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement.
- The agreed-upon procedures and the findings that result from performing those procedures are capable of being described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.
- The findings are capable of being objectively verified, which means that different practitioners performing the same procedures are expected to arrive at equivalent results.

**Engagement Level Quality Control** (Ref: Para. 19–20)

A24. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each engagement, emphasise the importance to achieving the quality of the engagement of:

- (a) Performing work that complies with professional standards and regulatory and legal requirements;
- (b) Complying with the firm's quality control policies and procedures as applicable; and
- (c) Issuing the practitioner's report for the engagement in accordance with this ASRS.

A25. ASQC1 requires the firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information that assists the engagement partner in determining whether acceptance or continuance of client relationships and agreed-upon procedures engagements is appropriate may include information concerning the integrity of the principal owners, key management and those charged with governance. If the engagement partner has cause to doubt management's integrity to a degree that is likely to affect proper performance of the engagement, it may not be appropriate to accept the engagement.

A26. ASQC1 sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. This ASRS sets out the engagement partner's responsibilities with respect to the engagement team's compliance with relevant ethical requirements.

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A27. If the practitioner is unable to meet the requirement in paragraph 20, it may be appropriate for the practitioner to agree with the engaging party to limit the scope of the agreed-upon procedures engagement to procedures for which the practitioner can appropriately take responsibility. The engaging party may separately engage an expert to perform the other procedures.

**Engagement Acceptance and Continuance** (Ref: Para. 21–23)

A28. In obtaining an understanding of the purpose of the agreed-upon procedures engagement, the practitioner may become aware of indications that the procedures the practitioner is asked to perform are inappropriate for the purpose of the agreed-upon procedures engagement. For example, the practitioner may be aware of facts or circumstances that indicate:

- The procedures are selected in a manner intended to bias the intended users' decision-making.
- The subject matter on which the agreed-upon procedures are performed is unreliable.
- An assurance engagement or advisory service may better serve the needs of the engaging party or other intended users.

A29. Other actions that may satisfy the practitioner that the conditions in paragraphs 21 and 22 are met include:

- Comparing the procedures to be performed with written requirements set out, for example, in law or regulation, or in a contractual agreement (sometimes referred to as the "Terms of Reference"), where appropriate.
- Requesting the engaging party to:
  - Distribute a copy of the anticipated procedures and the form and content of the agreed-upon procedures report as set out in the terms of engagement to the intended user(s).
  - Obtain acknowledgement from the intended user(s) of the procedures to be performed.
  - Discuss the procedures to be performed with appropriate representatives of the intended user(s).
- Reading correspondence between the engaging party and other intended user(s) if the engaging party is not the only intended user.

A30. If the conditions in paragraphs 21 and 22 are not met, it is unlikely that an agreed-upon procedures engagement is able to meet the needs of the engaging party or other intended users. In such circumstances, the practitioner may suggest other services, such as an assurance engagement, that may be more appropriate.

A31. All the conditions in paragraphs 21 and 22 also apply to procedures that have been added or modified during the course of the engagement.

**Descriptions of Agreed-Upon Procedures and Findings** (Ref: Para. 22 (c))

A32. The procedures to be performed during the agreed-upon procedures engagement may be prescribed by law or regulation. In some circumstances, law or regulation may also prescribe the way the procedures or findings are to be described in the agreed-upon procedures report. As set out in paragraph 22(c), a condition of accepting an agreed-upon procedures engagement is that the practitioner has determined that the agreed-upon procedures and findings can be

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described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.

- A33. Agreed-upon procedures are described objectively, in terms that are clear, not misleading, and not subject to varying interpretations. This means that they are described at a level of specificity sufficient for an intended user to understand the nature and extent and if applicable, the timing, of the procedures performed. It is important to recognise that any term could potentially be used in an unclear or misleading manner, depending on context or the absence thereof. Assuming that the terms are appropriate in the context in which they are used, examples of descriptions of actions that may be acceptable include:
- Confirm.
  - Compare.
  - Agree.
  - Trace.
  - Inspect.
  - Enquire.
  - Recalculate.
  - Observe.
- A34. Terms that may be unclear, misleading, or subject to varying interpretations depending on the context in which they are used, may include, for example:
- Terms that are associated with assurance under the AUASB's Standards such as "present fairly" or "true and fair," "audit," "review," "assurance," "opinion," or "conclusion."
  - Terms that imply expression of an assurance opinion or conclusion such as "we certify," "we verify," "we have ascertained" or "we have ensured" with regard to the findings.
  - Unclear or vague phrases such as "we obtained all the explanations and performed such procedures as we considered necessary."
  - Terms that are subject to varying interpretations such as "material" or "significant."
  - Imprecise descriptions of procedures such as "discuss," "evaluate," "test," "analyse" or "examine" without specifying the nature and extent, and if applicable, the timing, of the procedures to be performed. For example, using the word "discuss" may be imprecise without specifying with whom the discussion is held or the specific questions asked.
  - Terms that suggest that the findings do not reflect factual results such as "in our view," "from our perspective" or "we take the position that."
- A35. For example, a procedure such as "review cost allocations to determine if they are reasonable" is unlikely to meet the condition for terms to be clear, not misleading, or not subject to varying interpretations because:
- The term "review" may be misinterpreted by some users to mean that the cost allocation was the subject of a limited assurance engagement even though no such assurance is intended by the procedure.

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- The term “reasonable” is subject to varying interpretations as to what constitutes “reasonable.”

A36. In circumstances when law or regulation specifies a procedure or describes a procedure using terms that are unclear, misleading, or subject to varying interpretations, the practitioner may satisfy the condition in paragraph 22(c) by, for example, requesting the engaging party to:

- Modify the procedure or the description of the procedure so that it is no longer unclear, misleading, or subject to varying interpretations.
- If a term that is unclear, misleading or subject to varying interpretations cannot be amended, for example because of law or regulation, include a definition of the term in the agreed-upon procedures report.

*Compliance with Independence Requirements* (Ref: Para. 22(e), 24(e))

A37. Paragraph 22(e) applies when the practitioner is required to comply with independence requirements for reasons such as those set out in paragraph A15. Paragraph 22(e) also applies when the practitioner agrees with the engaging party, in the terms of engagement, to comply with independence requirements. For example, the practitioner may have initially determined that the practitioner is not required by relevant ethical requirements, law or regulation, or other reasons to comply with independence requirements. However, when considering engagement acceptance and continuance or agreeing the terms of engagement, the practitioner’s knowledge of the following 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 agreed-upon procedures engagement:

- The purpose of the agreed-upon procedures engagement;
- The identity of the engaging party, other intended users and responsible party (if different from the engaging party);
- The nature, timing and extent of the procedures to be performed; or
- Other engagements that the practitioner is performing or has performed for the engaging party, other intended users or the responsible party (if different from the engaging party).

A38. The practitioner may be the auditor of the financial report of the engaging party (or responsible party if different from the engaging party). In such a circumstance, if the practitioner is also engaged to conduct an agreed-upon procedures engagement, intended users of the agreed-upon procedures report may assume that the practitioner is independent for the purpose of the agreed-upon procedures engagement. Therefore, the practitioner may agree with the engaging party that the practitioner’s compliance with the independence requirements applicable to audits of financial report is appropriate for the purpose of the agreed-upon procedures engagement. In such a case, a statement that the practitioner is required to comply with such independence requirements is included in the terms of the engagement, in accordance with paragraph 24(e).

**Agreeing the Terms of the Engagement** (Ref: Para. 24–25)

A39. [Deleted by the AUASB . Refer Aus A39.1]

Aus A39.1 When relevant, additional matters may be included in the engagement letter, for example:

- Arrangements concerning the involvement of a practitioner’s expert in some aspects of the agreed-upon procedures engagement.

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- Any restrictions on the distribution of the agreed-upon procedures report.

- A40. An illustrative engagement letter for an agreed-upon procedures engagement is set out in Appendix 1.
- A41. The practitioner may agree with the engaging party that the procedures to be performed will include quantitative thresholds for determining exceptions. If so, these quantitative thresholds are included in the descriptions of the procedures in the terms of the engagement.
- A42. In some circumstances, law or regulation may prescribe only the nature of the procedures to be performed. In such circumstances, in accordance with paragraph 24(i), the practitioner agrees the timing and extent of procedures to be performed with the engaging party so that the engaging party has a basis to acknowledge that the procedures to be performed are appropriate for the purpose of the engagement.
- A43. In some circumstances, agreeing the terms of engagement and performing the agreed-upon procedures takes place in a linear and discrete manner. In other circumstances, agreeing the terms of engagement and performing the agreed-upon procedures is an iterative process, with changes to the agreed-upon procedures being agreed as the engagement progresses in response to new information coming to light. If procedures that have been previously agreed upon need to be modified, paragraph 25 requires the practitioner to agree the amended terms of engagement with the engaging party. The amended terms of engagement may, for example, take the form of an updated engagement letter, an addendum to an existing engagement letter, or other form of written acknowledgement.

*Recurring Engagements* (Ref: Para. 26)

- A44. The practitioner may decide not to send a new engagement letter or other written agreement for a recurring engagement. However, the following factors may indicate that it is appropriate to revise the terms of the engagement, or to remind the engaging party of the existing terms of the engagement:
- Any indication that the engaging party misunderstands the purpose of the agreed-upon procedures engagement or the nature, timing or extent of the agreed-upon procedures.
  - Any revised or special terms of the engagement, including any changes in the previously agreed-upon procedures.
  - A change in legal, regulatory or contractual requirements affecting the engagement.
  - A change in management or those charged with governance of the engaging party.

**Performing the Agreed-Upon Procedures** (Ref: Para. 28)

- A45. The practitioner may decide to request written representations in some circumstances, for example:
- If the agreed-upon procedures involve enquiries, the practitioner may request written representations on the responses that have been provided verbally.
  - If the engaging party is not the responsible party, the practitioner may agree with the engaging party to include, as an agreed-upon procedure, requests for written representations from the responsible party.

**Using the Work of a Practitioner's Expert** (Ref: Para. 29)

- A46. Using the work of a practitioner's expert may involve the use of an expert to assist the practitioner in:

**Commented [SW1]:** The international standard refers to both use and distribution. The application material refers to restriction on distribution only as restriction on use is a required element in the engagement letter.

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- Discussing with the engaging party the agreed-upon procedures to be performed. For example, a lawyer may provide suggestions to the practitioner on the design of a procedure to address legal aspects of a contract; or
- Performing one or more of the agreed-upon procedure(s). For example, a chemist may perform one of the agreed-upon procedures such as determining the toxin levels in a sample of grains.

A47. A practitioner's expert may be an external expert engaged by the practitioner or an internal expert who is part of the firm and therefore subject to the firm's system of quality control. The practitioner is entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. The extent of that reliance will vary with the circumstances and may affect the nature, timing and extent of the practitioner's procedures with respect to matters such as:

- Competence and capabilities, through recruitment and training programs.
- The practitioner's evaluation of the objectivity of the practitioner's expert.
- Agreement with the practitioner's expert.

Such reliance does not reduce the practitioner's responsibility to meet the requirements of this ASRS.

A48. If the practitioner's expert is performing one or more of the agreed-upon procedure(s), the agreement of the nature, scope and objectives of that expert's work as required by paragraph 29(b) includes the nature, timing and extent of the procedure(s) to be performed by the practitioner's expert. In addition to the matters required by paragraph 29(b), it may be appropriate for the practitioner's agreement with the practitioner's expert to include matters such as the following:

- (a) The respective roles and responsibilities of the practitioner and that expert;
- (b) The nature, timing and extent of communication between the practitioner and that expert, including the form of any report to be provided by that expert; and
- (c) The need for the practitioner's expert to observe confidentiality requirements.

A49. The matters noted in paragraph A47 may affect the level of detail and formality of the agreement between the practitioner and the practitioner's expert, including whether it is appropriate that the agreement be in writing. The agreement between the practitioner and the practitioner's external expert is often in the form of an engagement letter.

A50. When the work of a practitioner's expert is to be used, it may be appropriate to perform some of the procedures required by paragraph 29 at the engagement acceptance or continuance stage.

**The Agreed-Upon Procedures Report** (Ref: Para. 30–33)

A51. Appendix 2 contains illustrations of agreed-upon procedures reports.

*Subject Matter on which the Agreed-Upon Procedures Are Performed* (Ref: Para. 30(c))

A52. If applicable, to avoid misunderstanding, the practitioner may wish to clarify that the agreed-upon procedures report does not extend to information beyond subject matters on which the agreed-upon procedures are performed. For example, if the practitioner was engaged to perform agreed-upon procedures on an entity's accounts receivable and inventory, the practitioner may wish to include a statement that the agreed-upon procedures report relates only to these accounts and does not extend to the entity's financial report taken as a whole.

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*Purpose of the Agreed-Upon Procedures Report* (Ref: Para. 30(d))

A53. [Deleted by the AUASB. Refer Aus A53.1]

Aus A53.1 In addition to the statement required by paragraph 30(d) and paragraph Aus 30(s), the practitioner may consider it appropriate to restrict the distribution of the agreed-upon procedures report. Agreement with the engaging party(ies) regarding acceptable distribution may be reflected in the terms of the engagement.

**Commented [SW2]:** The ASRS refers to restriction on distribution only, whereas comparable paragraphs in the international standard refer to both use and distribution.

A54. [Deleted by the AUASB. Refer Aus A54.1]

Aus 0.1 Factors that the practitioner may consider in deciding whether to restrict the distribution of the agreed-upon procedures report include, for example, whether:

- There is an elevated risk of users other than the intended users misunderstanding the purpose of the agreed-upon procedures engagement or misinterpreting the findings.
- The agreed-upon procedures are designed solely for the use of internal users such as management and those charged with governance of the engaging party.
- The agreed-upon procedures or findings involve confidential information.

*Agreed-Upon Procedures and Findings* (Ref: Para. 30(n)–30(o))

A55. If the practitioner is unable to describe the agreed-upon procedures or findings without including confidential or sensitive information, the practitioner may consider:

- Consulting internally (for example, within the firm or network firm);
- Consulting externally (for example, with the relevant professional body or another practitioner); or
- Obtaining legal advice,
- to understand the professional or legal implications of taking any particular course of action.

A56. There may be circumstances when the fact that previously agreed-upon procedures have not been performed or have been modified is important to the intended users' consideration of the agreed-upon procedures and findings. For example, this may be the case when the procedures are set out in law or regulation. In such circumstances, the practitioner may identify, in the agreed-upon procedures report, the procedures agreed in the original terms of the engagement which could not be performed or were modified, and why that has arisen.

A57. The practitioner may refer to the date when the agreed-upon procedures were agreed in the terms of the engagement.

*Reference to Practitioner's Expert* (Ref: Para. 31)

A58. In some circumstances, law or regulation may require a reference, in the agreed-upon procedures report, to a practitioner's expert who performed any of the agreed-upon procedures. For example, such a reference may be required for the purposes of transparency in the public sector. The practitioner may also consider it appropriate in other circumstances, for example, when referring to the practitioner's expert when describing the agreed-upon procedures. Nonetheless, the practitioner has sole responsibility for the findings included in the agreed-upon procedures report, and that responsibility is not reduced by the use of the practitioner's expert. It is important therefore that if the agreed-upon procedures report refers to the practitioner's expert, the report does not imply that the practitioner's responsibility is reduced because of the reference to the practitioner's expert.

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**Undertaking an Agreed-Upon Procedures Engagement Together with Another Engagement** (Ref: Para. 34)

A59. A practitioner may be requested to perform other engagements together with the agreed-upon procedures engagement, such as providing recommendations arising from the agreed-upon procedures engagement. Such requests may take the form of one request for the practitioner to perform agreed-upon procedures and make recommendations, and the terms of the various engagements may be set out in a single engagement letter. To avoid misunderstanding, paragraph 34 requires that the agreed-upon procedures report be clearly distinguished from the reports of other engagements. For example, the recommendations may be:

- Provided in a separate document from the agreed-upon procedures report; or
- Included in a document that contains both the agreed-upon procedures report and recommendations but the recommendations are clearly differentiated from the agreed-upon procedures report, for example, by including the agreed-upon procedures report and the recommendations in separate sections of the document.

**Documentation** (Ref: Para. 35)

A60. Documentation of the nature, timing and extent of the agreed-upon procedures performed may include a record of, for example:

- The identifying characteristics of the subject matter(s) on which the agreed-upon procedures are performed. Identifying characteristics will vary depending on the nature of the agreed-upon procedure and the subject matter(s) on which the agreed-upon procedure is performed. For example:
  - For a procedure on purchase orders, the practitioner may identify the documents selected by their dates and unique purchase order numbers.
  - For a procedure requiring selection of all items over a specific amount from a given population, the practitioner may record the scope of the procedure and identify the population (for example, all journal entries over a specified amount from the journal register for a specific period, all timesheets for hours recorded over a certain number for specified months or every tenth item on a specific list).
  - For a procedure requiring enquiries of specific personnel, the practitioner may record the dates of the enquiries, the names and job designations of the personnel and the specific enquiries made.
  - For an observation procedure, the practitioner may record the process or matter being observed, the relevant individuals, their respective responsibilities, and where and when the observation was carried out.
- Who performed the agreed-upon procedures and the date such procedures were performed.
- Who reviewed the agreed-upon procedures performed, and the date and extent of such review.



## Appendix 1

(Ref: Para A40)

### Illustrative Engagement Letter for an Agreed-Upon Procedures Engagement

The following is an example of an engagement letter for an agreed-upon procedures engagement that illustrates the relevant requirements and guidance contained in this ASRS. This letter is not authoritative and is intended only to be a guide that may be used in conjunction with the considerations outlined in this ASRS. It will need to be adapted according to the requirements and circumstances of individual agreed-upon procedures engagements. It is drafted to refer to an agreed-upon procedures engagement for a single reporting period and would require adaptation if intended or expected to apply to a recurring engagement as described in this ASRS. It may be appropriate to seek legal advice that any proposed letter is suitable.

To [Engaging Party]

You have requested that we perform an agreed-upon procedures engagement on the procurement of [xyz] products. This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide. Our engagement will be conducted in accordance with the Australian Standard on Related Services ASRS 4400, *Agreed-Upon Procedures Engagements*. In performing the agreed-upon procedures engagement, we will comply with [describe the relevant ethical requirements], which does not require us to be independent / In performing the agreed-upon procedures engagement, we will comply with [describe the relevant ethical requirements], including the independence requirements of [describe the relevant independence requirements]<sup>7,8,9</sup>.

An agreed-upon procedures engagement performed under ASRS 4400 involves our performing the procedures agreed with you, and communicating the findings in the agreed-upon procedures report. Findings are the factual results of the agreed-upon procedures performed. You [and if relevant, other parties] acknowledge that the procedures are appropriate for the purpose of the engagement. We make no representation regarding the appropriateness of the procedures. This agreed-upon procedures engagement will be conducted on the basis that [Responsible Party] is responsible for the subject matter on which the agreed-upon procedures are performed. Further, this agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

The procedures that we will perform are solely for the purpose of assisting you in determining whether your procurement of [xyz] products is compliant with your procurement policies.<sup>10</sup> Accordingly, our report will be addressed to you and our report may not be suitable for another purpose.

<sup>7</sup> For example, where independence is required or agreed to, if the APESB Code is the relevant ethical requirements and Part 4A of the APESB Code (independence for audit and review engagements) is the relevant independence requirements, this sentence may be worded along the following: "In performing the agreed-upon procedures engagement, we will comply with the ethical requirements of the Accounting Professional & Ethical Standards Board *Code of Ethics for Professional Accountants (including Independence Standards)* (APESB Code), including independence requirements in Part 4A of the APESB Code."

<sup>8</sup> For example, where independence is required or agreed to, if the APESB Code is the relevant ethical requirements and Part 4B of the APESB Code (independence for other assurance engagements) is the relevant independence requirements, this sentence may be worded along the following: "In performing the agreed-upon procedures engagement, we will comply with the ethical requirements of the Accounting Professional & Ethical Standards Board *Code of Ethics for Professional Accountants (including Independence Standards)* (APESB Code), including independence requirements in Part 4B of the APESB Code."

<sup>9</sup> For example, where independence is required or agreed to, if the IESBA Code is the relevant ethical requirements and Part 4A of the IESBA Code is the relevant independence requirements, this sentence may be worded along the following: "In performing the agreed-upon procedures engagement, we will comply with the ethical requirements of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) and the independence requirements in Part 4A of the IESBA Code."

<sup>10</sup> In this case, the engaging party is also the intended user.

**Standard on Related Services ASRS 4400**  
***Agreed-Upon Procedures Engagements***

---

We have agreed to perform the following procedures and report to you the findings resulting from our work:

- Obtain from management of [Engaging Party] a listing of all contracts signed between [January 1, 20X1] and [December 31, 20X1] for [xyz] products (“listing”) and identify all contracts valued at over \$25,000.
- For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether each contract was subject to bidding by at least 3 contractors from [Engaging Party]’s “Pre-qualified Contractors List.”
- For each identified contract valued at over \$25,000 on the listing, compare the amount payable per the signed contract to the amount ultimately paid by [Engaging Party] to the contractor and determine whether the amount ultimately paid is the same as the agreed amount in the contract.

The procedures are to be performed between [Date] and [Date].

**Our Agreed-Upon Procedures Report**

As part of our engagement, we will issue our report, which will describe the agreed-upon procedures and the findings of the procedures performed [insert appropriate reference to the expected form and content of the agreed-upon procedures report]. Use of our report will be restricted to the intended users identified in the agreed-upon procedures report and all other parties will be excluded from using the report.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement, including the specific procedures which we have agreed will be performed and that they are appropriate for the purpose of the engagement.

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Firm’s name]

Acknowledged and agreed on behalf of [Engaging party’s name] by:

[Signature]

[Name and Title]

[Date]

## Appendix 2

(Ref: Para A51)

### Illustrations of Agreed-Upon Procedures Reports

#### Illustration 1

For purposes of this illustrative agreed-upon procedures report, the following circumstances are assumed:

- The engaging party is the addressee and the only intended user. The engaging party is not the responsible party. For example, the regulator is the engaging party and intended user, and the entity overseen by the regulator is the responsible party.
- No exceptions were found.
- The practitioner did not engage a practitioner's expert to perform any of the agreed-upon procedures.
- There is a restriction on the use of the report.
- There are no independence requirements with which the practitioner is required to comply.
- A quantitative threshold of \$100 for reporting exceptions in Procedure 3 has been agreed with the engaging party.
- Australian inserted text highlighted in grey shade.

#### AGREED-UPON PROCEDURES REPORT ON PROCUREMENT OF [XYZ] PRODUCTS

To [Addressee]

#### Purpose of this Agreed-Upon Procedures Report and Restriction on Use

Our report is solely for the purpose of assisting [Engaging Party] in determining whether its procurement of [xyz] products is compliant with its procurement policies and may not be suitable for another purpose. As required by ASRS 4400, use of this report is restricted to [individual(s), organisation(s), or group(s) that the practitioner expects will use this report]. Accordingly, we expressly disclaim and do not accept any responsibility or liability to any party other than [company full name and intended users] for any consequences of reliance on this report for any purpose.

**Commented [SW3]:** Liability statement is not required by ASRS 4400 but is accepted practice.

#### Responsibilities of the Engaging Party and the Responsible Party

[Engaging Party] has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

[Responsible Party], as identified by [Engaging Party], is responsible for the subject matter on which the agreed-upon procedures are performed.

#### Practitioner's Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the Australian Standard on Related Services ASRS 4400, *Agreed-Upon Procedures Engagements*. An agreed-upon procedures engagement involves our performing the procedures that have been agreed with [Engaging Party], and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

**Standard on Related Services ASRS 4400**  
**Agreed-Upon Procedures Engagements**

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This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

*Professional Ethics and Quality Control*

We have complied with the ethical requirements in [describe the relevant ethical requirements], including the fundamental principle of objectivity. For the purpose of this engagement, there are no independence requirements with which we are required to comply.

Our firm applies Australian Standard on Quality Control ASQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance Engagements and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Procedures and Findings**

We have performed the procedures described below, which were agreed upon with [Engaging Party], on the procurement of [xyz] products.

	<b>Procedures</b>	<b>Findings</b>
1	Obtain from management of [Responsible Party] a listing of all contracts signed between [January 1, 20X1] and [December 31, 20X1] for [xyz] products (“listing”) and identify all contracts valued at over \$25,000.	We obtained from management a listing of all contracts for [xyz] products which were signed between [January 1, 20X1] and [December 31, 20X1].  Of the 125 contracts on the listing, we identified 37 contracts valued at over \$25,000.
2	For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether the contract was subject to bidding by at least 3 contractors from [Responsible Party]’s “Pre-qualified Contractors List.”	We inspected the records of bidding related to the 37 contracts valued at over \$25,000. We found that all of the 37 contracts were subject to bidding by at least 3 contractors from the [Responsible Party]’s “Pre-qualified Contractors List.”
3	For each identified contract valued at over \$25,000 on the listing, compare the amount payable per the signed contract to the amount ultimately paid by [Responsible Party] to the contractor and determine whether the amount ultimately paid is within \$100 of the agreed amount in the contract.	We obtained the signed contracts for the 37 contracts valued at over \$25,000 on the listing and compared the amounts payable in the contracts to the amounts ultimately paid by [Responsible Party] to the contractor.  We found that the amounts ultimately paid were within \$100 of the agreed amounts in all of the 37 contracts with no exceptions noted.

[Practitioner’s signature]

[Date of practitioner’s report]

[Practitioner’s address]

**Standard on Related Services ASRS 4400**  
**Agreed-Upon Procedures Engagements**

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**Illustration 2**

For purposes of this illustrative agreed-upon procedures report, the following circumstances are assumed:

- 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. For example, the regulator is the intended user and the entity overseen by the regulator is the engaging party and responsible party.
- Exceptions were found.
- The practitioner engaged a practitioner's expert to perform an agreed-upon procedure and a reference to that expert is included in the agreed-upon procedures report.
- There is a restriction on the use of the report.
- The practitioner is the auditor of the financial report of the engaging party (who is the responsible party). The practitioner has agreed with the engaging party that the practitioner's compliance with the independence requirements applicable to audits of financial reports is appropriate for the purpose of the agreed-upon procedures engagement. The practitioner has agreed to include, in the terms of engagement, compliance with the independence requirements applicable to audits of financial reports for the purpose of the agreed-upon procedures engagement.
- The practitioner included a reference to the date when the agreed-upon procedures were agreed in the terms of the engagement.
- Australian inserted text highlighted in grey shade.

AGREED-UPON PROCEDURES REPORT ON PROCUREMENT OF [XYZ] PRODUCTS

To [Addressees]

**Purpose of this Agreed-Upon Procedures Report and Restriction on Use**

Our report is solely for the purpose of assisting [Intended User] in determining whether the [Engaging Party]'s procurement of [xyz] products is compliant with [Intended User]'s procurement policies and may not be suitable for another purpose. Use of this report is restricted to [individual(s), organisation(s), or group(s) that the practitioner expects will use this report]. Accordingly, we expressly disclaim and do not accept any responsibility or liability to any party other than [company full name and intended users] for any consequences of reliance on this report for any purpose.

**Commented [SW4]:** International standard illustrative report includes restriction on use and distribution

**Responsibilities of the Engaging Party**

[Engaging Party] has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

[Engaging Party (also the Responsible Party)] is responsible for the subject matter on which the agreed-upon procedures are performed.

**Practitioner's Responsibilities**

We have conducted the agreed-upon procedures engagement in accordance with the Australian Standard on Related Services ASRS 4400, *Agreed-Upon Procedures Engagements*. An agreed-upon

**Standard on Related Services ASRS 4400**  
**Agreed-Upon Procedures Engagements**

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procedures engagement involves our performing the procedures that have been agreed with [Engaging Party], and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

**Professional Ethics and Quality Control**

We have complied with the ethical requirements in [describe the relevant ethical requirements], including the fundamental principle of objectivity and the independence requirements in accordance with [describe the relevant independence requirements].<sup>11</sup>

Our firm applies Australian Standard on Quality Control ASQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance Engagements and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Procedures and Findings**

We have performed the procedures described below, which were agreed upon with [Engaging Party] in the terms of engagement dated [DATE], on the procurement of [xyz] products.

	<b>Procedures</b>	<b>Findings</b>
1	Obtain from management of [Engaging Party] a listing of all contracts signed between [January 1, 20X1] and [December 31, 20X1] for [xyz] products (“listing”) and identify all contracts valued at over \$25,000.	We obtained from management a listing of all contracts for [xyz] products which were signed between [January 1, 20X1] and [December 31, 20X1].  Of the 125 contracts on the listing, we identified 37 contracts valued at over \$25,000.

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<sup>11</sup> For example, if the APESB Code is the relevant ethical requirements and Part 4A of the APESB Code is the relevant independence requirements, this sentence may be worded along the following: “We have complied with the ethical requirements of the Accounting Professional & Ethical Standards Board *Code of Ethics for Professional Accountants (including Independence Standards)* (APESB Code) and the independence requirements in Part 4A of the APESB Code.”

**Standard on Related Services ASRS 4400**  
**Agreed-Upon Procedures Engagements**

	<b>Procedures</b>	<b>Findings</b>
2	For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether the contract was subject to bidding by at least 3 contractors from [Engaging Party]'s "Pre-qualified Contractors List." For records of bidding that were submitted in [foreign language], translate the records of bidding with the assistance of a translator engaged by the practitioner before performing the comparison.	<p>We inspected the records of bidding related to the 37 contracts valued at over \$25,000. Of the records of bidding related to the 37 contracts, 5 were submitted in [foreign language]. We engaged a translator to assist us in the translation of these 5 records of bidding.</p> <p>We found that 36 of the 37 contracts were subject to bidding by at least 3 contractors from [Engaging Party]'s "Pre-qualified Contractors List."</p> <p>We found 1 contract valued at \$65,000 that was not subject to bidding. Management has represented to us that the reason that this contract was not subject to bidding was due to an emergency to meet a contractual deadline.</p> <p>The engagement of the translator to assist us in the translation of the records of bidding does not reduce our responsibility for performing the procedures and reporting the findings.</p>
3	For each identified contract valued at over \$25,000 on the listing, compare the amount payable per the signed contract to the amount ultimately paid by [Engaging Party] to the supplier and determine whether the amount ultimately paid is the same as the agreed amount in the contract.	<p>We obtained the signed contracts for the 37 contracts valued at over \$25,000 on the listing and compared the amounts payable in the contracts to the amounts ultimately paid by [Engaging Party] to the supplier.</p> <p>We found that the amounts payable in the signed contracts differed from the amounts ultimately paid by [Engaging Party] for 26 of the 37 contracts. In all these cases, management has represented to us that the difference in the amounts were to accommodate an increase of 1% in the sales tax rate of [jurisdiction] that became effective in September 20X1.</p>

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]

[Aus] Appendix 3

**Differentiating Factors between Agreed-Upon Procedures Engagements and Assurance Engagements**

Differentiating Factor	Agreed-Upon Procedures Engagement	Assurance Engagement
Nature, timing and extent of procedures responsibility of:	Responsibility of the engaging party to acknowledge that the agreed-upon procedures are appropriate for the purpose of the engagement.	Responsibility of the assurance practitioner to design and perform procedures for the purpose of obtaining sufficient appropriate evidence.
Independence requirement:	ASRS 4400 does not require the practitioner to be independent, however independence may be required under the terms of engagement when the practitioner agrees with the engaging party or where laws or regulations require independence.  ASRS 4400 requires the practitioner to comply with relevant ethical requirements which under APES Code 110 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i> includes the fundamental principle of objectivity.	ASA 102 <i>Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i> requires assurance practitioners to comply with relevant ethical requirements, including those pertaining to independence.
Nature, timing and extent of procedures determined in:	Terms of the engagement	Engagement plan
Changes to the nature, timing and extent of procedures are documented in:	Terms of the engagement	Engagement plan
Extent of assurance practitioner's professional judgement exercised in performing procedures:	The need for the practitioner to exercise professional judgement when performing the agreed-upon procedures is limited.	Professional judgement exercised in performing procedures
Sufficiency and appropriateness of evidence assessed by:	Engaging party and intended users	Assurance practitioner
Form and content of report:	Factual findings, no conclusion or assurance provided	Opinion or conclusion providing assurance
Reporting of procedures performed:	Detail of the exact nature, timing and extent of all procedures performed are reported	Summary of work performed
Reporting of findings:	Detail of exact findings resulting from each procedure performed, including errors and exceptions identified, even if rectified.	No detail of findings, unless a modified report is to be issued when the basis for modification is provided or if a management letter is provided in addition to the assurance report.
Restriction of use of the report:	Use of the agreed-upon procedures report is restricted to those intended users identified in the agreed-upon procedures report.	Use of the assurance report is not required to be restricted.



## NZAuASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 6.1

**Meeting date:** 3 December 2020

**Subject:** Annual Improvements

**Date:** 16 November 2020

**Prepared By:** Sharon Walker

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**Action Required**

**For Information Purposes Only**

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### Agenda Item Objectives

1. The objective of this agenda item is for the Board to Consider and approve the draft ED 2020-3 Annual Improvements 2020

### Background

2. The proposed exposure draft has been prepared to:
  - Amend the definition of assurance practitioner in Professional and Ethical Standard 1 to align with the revised definition of assurance practitioner in XRB Au 1, *Application of Auditing and Assurance Standards*;
  - Correct the formatting of paragraph R924.2 in the amending standard *Amendments to Professional and Ethical Standard 1: Part 4B – Independence for Assurance Engagements Other Than Audit and Review Engagements* to clearly separate out the requirement;
  - Correct typographical errors identified in the auditing and assurance standards; and
  - Make further conforming amendments as a result of the issuance of the revised and restructured Professional and Ethical Standard 1 in the illustrative reports and description of circumstances in ISAs (NZ) 710<sup>1</sup> and 720<sup>2</sup>.

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<sup>1</sup> International Standard on Auditing (New Zealand) 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements*

<sup>2</sup> International Standard on Auditing (New Zealand) 720, *The Auditor's Responsibility Relating to Other Information*

### **Exposure Period and Effective Date**

3. Due to the limited/editorial nature of the proposed changes, we recommend a 30-day exposure period. EG Au2<sup>3</sup> permits a shorter comment period to be used for urgent or minor matters. We consider the proposed changes to be minor matters.
4. Except for the proposed change to Part 4B of Professional and Ethical Standard 1, we recommend the proposed changes become effective on approval of the finalized standard.
5. We recommend the effective date for the proposed change to Part 4B (a minor amendment to the formatting of a paragraph to clearly separate out a requirement) be aligned with the effective date of the conforming amendment standard, [Amendments to Professional and Ethical Standard 1: Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements](#). That standard states, “Part 4B relating to independence for assurance engagements with respect to underlying subject matter covering periods will be effective for periods beginning on or after 15 June 2021; otherwise, it will be effective on 15 June 2021. Early adoption will be permitted.”
6. Does the Board agree with the recommendations?

### **Action Requested**

7. The Board is asked to consider and approve as an exposure draft *Annual Improvements 2020*.

### **Material Presented**

Agenda item 6.1	Board Meeting Summary Paper
Agenda item 6.2	ITC and Exposure Draft

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<sup>3</sup> Explanatory Guide Au2 *Overview of the Auditing and Assurance Standard Setting Process*



NZ AUDITING  
AND ASSURANCE  
STANDARDS BOARD

# **EXPOSURE DRAFT NZAUASB 2020-3 ANNUAL IMPROVEMENTS 2020**

## **Invitation to Comment**

**December 2020**

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External Reporting Board  
PO Box 11250  
Manners St Central, Wellington 6142  
New Zealand  
<http://www.xrb.govt.nz>

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<b>Exposure Draft NZAuASB 2020-3 Annual Improvements 2020</b>	

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# Information for respondents

## Invitation to Comment

The New Zealand Auditing and Assurance Standards Board (NZAuASB)<sup>1</sup> is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all responses before finalising Annual Improvements 2020.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues, that are relevant to you.

Comments should be submitted electronically using our 'Open for Comment' page at

[Insert link](#)

The closing date for submission is 15 January 2021.

## Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or full. The Privacy Act 1993 also applies.

If you have any objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

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<sup>1</sup> The NZAuASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting auditing and assurance standards.

## List of abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
ISA (NZ)	International Standard on Auditing (New Zealand)
ITC	Invitation to comment
NZAuASB	New Zealand Auditing and Assurance Standards Board
XRB	External Reporting Board

## Summary of questions for respondents

The NZAuASB is interested in hearing from constituents as to whether they agree with the limited proposed amendments. Respondents are asked to consider the following specific questions and to respond to the NZAuASB by 15 January 2021:

1. Do you agree with the NZAuASB's proposals to amend the standards as described in the exposure draft? If not, please explain why not, and what alternative do you propose.
2. Do you agree with the proposed effective date? If not, please explain why not, and what alternative do you propose?

# 1. Introduction

## 1.1 Background

1. This ED proposes to amend various standards issued by the NZAuASB for minor editorial corrections and consistency with other standards.

## 1.2 Purpose of this Invitation to Comment

2. The purpose of the Invitation to Comment is to seek feedback from stakeholders on Exposure Draft *Annual Improvements 2020*.

## 1.3 Timeline and next steps

3. Submissions on ED 2020-3 are due by 15 January 2021. Information on how to make submissions is provided on page 4 of this ITC.
4. The NZAuASB will consider the submissions received immediately after the consultation period ends. Subject to that feedback, the NZAuASB hopes to issue *Annual Improvements 2020* in February 2021.

## 1.4 Proposed effective date

5. The NZAuASB proposes amendments described in sections B1, B2, C and D will be effectively immediately after the final standard is issued.
6. The effective date of the amendment described in section B3 will be aligned with the effective date of the finalised standard *Amendments to Professional and Ethical Standard 1: Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements*.

# 2. Overview of proposed amendments

7. The following are the amendments proposed to be made:
  - (i) In Professional and Ethical Standard 1 to:
    - a. Amend the definition of assurance practitioner to align with the revised definition of assurance practitioner in External Reporting Board (XRB) Standard Au1, *Application of Auditing and Assurance Standards (Legislative Update)*;
    - b. Correct typographical errors; and
    - c. Correct the formatting of paragraph R924.4 in the amending standard *Amendments to Professional and Ethical Standard 1: Part 4B – Independence for Assurance Engagements Other Than Audit and Review Engagements*.
  - (ii) In International Standard on Auditing (New Zealand) 720<sup>2</sup> to correct a typographical error in paragraph 4 arising from the finalised standard *Conforming Amendments to Auditing and Assurance Standards as a Result of the Revised Professional and Ethical Standard 1*.

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<sup>2</sup> ISA (NZ) 720, *The Auditor's Responsibility Relating to Other Information*



- (iii) In International Standards on Auditing (New Zealand) 710<sup>3</sup> and 720 to amend the circumstances described and the illustrative auditor’s reports to refer to the new title of Professional and Ethical Standard 1.

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<sup>3</sup> ISA (NZ) 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements*

**EXPOSURE DRAFT NZAUASB 2020-3  
ANNUAL IMPROVEMENTS 2020**

**CONTENTS**

**A: INTRODUCTION**

**B: AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1**

**C: AMENDMENT TO ISA (NZ) 720**

**D: AMENDMENTS TO ILLUSTRATIVE REPORTS IN ISA (NZ) 710 AND  
720**

**E: EFFECTIVE DATE**

## **A: INTRODUCTION**

This document sets out proposed amendments to various standards issued by the NZAuASB for minor editorial corrections and consistency with other standards.

Section B of this document sets out the proposed amendments to Professional and Ethical Standard 1. Section B uses underline and strike through to indicate proposed changes.

Section C of this document sets out an amendment to paragraph 4 of ISA (NZ) 720 to correct a typographical error in the finalised standards *Conforming Amendments to Auditing and Assurance Standards as a Result of the Revised Professional and Ethical Standard 1*. Section C uses underline and strike through to indicate proposed changes.

Section D of this document sets out amendments to the circumstances described and the illustrative auditor's reports in International Standards on Auditing (New Zealand) 710 and 720 to refer to the new title of Professional and Ethical Standard 1. Section D uses underline and strike through to indicate proposed changes.

Note: The footnote numbers within these amendments do not align with the actual footnote numbers of the standards that will be amended, and reference should be made to those compiled standards.

## B: AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1

### B1 Definition of Assurance Practitioner

The definitions of assurance practitioner in Professional and Ethical Standard 1 is amended to align with the revised definition of assurance practitioner in External Reporting Board Standard Au1, *Application of Auditing and Assurance Standards (Legislative Update)*.

In the glossary,

[NZ] Assurance practitioner	A person or <u>an</u> organisation, whether in public practice, industry, commerce or the public sector, appointed or engaged to undertake assurance engagements <u>or related services</u> .
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### B2 Editorial amendments to correct typographical errors

The following amendments are necessary to correct typographical errors in Professional and Ethical Standard 1.

360.3 An assurance practitioner might encounter or be made aware of non-compliance or suspected non-compliance in the course of providing a professional service to a client. This section guides the assurance practitioner in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:

- (a) Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the client's financial statements; and
- (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

**NZ R360.18.1** If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in paragraph NZ R360.17.1(a) and (b), the group engagement partner shall take steps to have the matter communicated to those performing work at the components, unless prohibited from doing so by law or regulation. If necessary, the group engagement partner shall arrange for appropriate enquiries to be made (either of management or from publicly available information) as to whether the relevant component(s) specified in paragraph NZ R360.17.1(b) is subject to audit or review and, if so, to ascertain to the extent practicable the identity of the auditor.

**R540.4** If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit or review team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the audit or review engagement;
- (b) Provide quality control for the audit ~~or~~ review engagement; or
- (c) Exert direct influence on the outcome of the audit or review engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.

### **All Audit and Review Clients**

[The heading above paragraph 610.3 A1 is amended to include “or Review”]

610.3 A1 Examples of corporate finance services that might create a self-review or advocacy threat include:

- Assisting an audit or review client in developing corporate strategies.
- Identifying possible targets for the audit or review client to acquire.
- Advising on disposal transactions.
- Assisting in finance raising transactions.
- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements that will directly affect amounts that will be reported in the financial statements on which the firm will express an opinion or a conclusion.

### **Employment with an Audit or Review Client**

[The heading above paragraph **R800.13** is amended to include “or Review”]

**R800.13** When the firm performs an eligible audit or review engagement, the firm shall evaluate and address any threats created by any employment relationships as set out in paragraphs 524.3 A1 to 524.5 A3.

## **B3 Part 4B -Independence for Assurance Engagements Other than Audit and Review Engagements**

In the amending standard *Amendments to Professional and Ethical Standard 1: Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements*, the formatting of paragraph R924.4 is corrected to clearly separate out the requirement.

**R924.4** If a former partner has joined an assurance client of the firm or a former assurance team member has joined the assurance client as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement, ~~the individual shall not continue to participate in the firm's business or professional activities.~~

the individual shall not continue to participate in the firm's business or professional activities.

### **C: AMENDMENT TO ISA (NZ) 720**

Paragraph 4 is amended to add the word “recklessly” which was unintentionally struck-through in the finalised *Conforming Amendments to Auditing and Assurance Standards as a Result of the Revised Professional and Ethical Standard 1*.

- 4. This ISA (NZ) may also assist the auditor in complying with relevant ethical requirements<sup>4</sup> that require the auditor to avoid being knowingly associated with information that the auditor believes contains a materially false or misleading statement, statements or information provided recklessly, or omits or obscures required information where such omission or obscurity would be misleading.

### **D: AMENDMENT TO ILLUSTRATIVE AUDITOR'S REPORTS**

The basis for opinion paragraph and the circumstances described section of the illustrative auditor's reports in ISA (NZ) 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements*, and ISA (NZ) 720, *The Auditor's Responsibility Relating to Other Information*, are amended to refer to the revised and restructured Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*. This amendment is consistent with the conforming amendments made to the illustrative auditor's reports in *Conforming Amendments to Auditing and Assurance Standards as a Result of the Revised Professional and Ethical Standard 1*.

- Professional and Ethical Standard 1 ~~(Revised)~~ *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.

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<sup>4</sup> Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, paragraph R111.2

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1-~~(Revised)~~ International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

...

## **E: EFFECTIVE DATE**

The proposed amendments described in sections B1, B2, C and D will be effective immediately after the final standard is issued.

The effective date of the amendment described in section B3 will be aligned with the effective date of the finalised standard *Amendments to Professional and Ethical Standard 1: Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements*.

## NZAuASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 7.1

**Meeting date:** 3 December 2020

**Subject:** Review of Compelling reason test and Harmonisation Policy

**Date:** 18 November 2020

**Prepared By:** Sylvia van Dyk

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**Action Required**  **For Information Purposes Only**

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### Agenda Item Objectives

- a. To CONSIDER amendments to the NZAuASB/AUASB convergence and harmonisation policy arising from NZAuASB member feedback provided to date and feedback provided by NZAuASB and AUASB members at the joint board meeting with the AUASB held on 21 October 2020;
- b. To APPROVE the policy, subject to any further amendments requested by the NZAuASB and additional changes the AUASB request at their meeting on 1 December 2020.

### Background

1. The key strategic objectives set by the XRB Board for the NZAuASB include:
  - to adopt international auditing and assurance standards, including the professional and ethical standards for assurance practitioners, and standards for related services<sup>1</sup>, in New Zealand unless there are strong reasons not to (which the Board describes as “compelling reasons”); and
  - to work with the Australian Auditing and Assurance Board (AUASB) towards the establishment of harmonised standards based on international standards.
2. The XRB Board recognises that the NZAuASB may consider modifying international standards for application in New Zealand under either of those objectives. The XRB Board considers such modifications acceptable, provided they consider the public interest, and do not conflict with or result in lesser requirements than the international standards.

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<sup>1</sup> Agreed upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.



3. The NZAuASB and the AUASB jointly considered and agreed [Principles of Conversion to International standards and the Harmonisation Policy](#), which applied from 1 July 2012, and was revised in July 2014.
4. A specific action within the NZAuASB's SAP for 2019-2021 is to review the compelling reason test and the harmonisation policy jointly with the AUASB, to determine if it remains fit for purpose in the current auditing and assurance environment, both globally and in the two jurisdictions.
5. Initial proposed amendments to the Principles of Convergence with the IAASB and Harmonisation with the AUASB document were drafted for both Boards to consider and provide feedback on at their respective September 2020 meetings. This feedback was reviewed by NZAuASB and AUASB technical staff and updated in a revised policy document presented for consideration by members of both boards at the joint meeting held on 21 October 2020.
6. The AUASB will consider the updated amendments at their meeting on 1 December. The NZAuASB will receive a verbal update on the outcome of the AUASB's discussions at the NZAuASB meeting.

#### **Matters to Consider**

7. Deliberations at the joint meeting of the NZAuASB and the AUASB held on 21 October 2020 were positive and generally supported the changes made to the policy following each Board's September 2020 meetings.
8. Representatives from both the NZAuASB and the AUASB provided additional feedback on the revised policy presented at the joint meeting. The key points of feedback noted were:
  - a. The need to reference the Public Interest up front in the policy (although it was agreed to keep the detail in the Appendix).
  - b. That the policy needs to recognise there will be differences in each jurisdiction, but we should seek to align wherever possible.
  - c. Improve the flow and structure of the document so that it contains principles up front and then has separate sections for the convergence, harmonisation and communications elements of the policy.
  - d. Add an additional point about the need for both boards to enhance convergence and harmonisation of standards by effectively influencing the development of international standards.
  - e. That communications between the Boards about any differences or potential differences should be addressed as early as possible.
9. A marked up version of the document which contains changes to the policy based on the feedback provided by Board members at the joint meeting developed by NZAuASB and AUASB technical staff is available at agenda 7.2. The changes made to the policy since the October 2020 joint meeting have been designed to reflect the additional feedback from Board members described above. In addition, to aid review of the document we have also provided the NZAuASB with a clean version of the policy at agenda Paper 7.2.

**Questions for the Board:**

1. Does the NZAuASB support the additional changes made to the policy based on feedback from the October 2020 joint NZAuASB/AUASB meeting? (Refer agenda paper 7.2/7.3)
2. Are there any additional changes the Board would like to make to the policy?
3. Is the Board happy to approve the policy (subject to any additional changes requested at the December 2020 meeting)?
4. Are there any other matters which should be considered in order to finalise the NZAuASB/AUASB Convergence and Harmonisation Policy document?

**Recommendations**

26. We recommend that the Board consider and (subject to any final amendments) approve the latest version of the policy.

**Material Presented**

Agenda item 7.1	Board Meeting Summary Paper
Agenda item 7.2	Marked- up Principles of Convergence and Harmonisation Policy
Agenda item 7.3	Clean Principles of Convergence and Harmonisation Policy

**Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board (IAASB) [and to the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code)]**

and

**Harmonisation with the standards between the Australian Auditing and Assurance Standards Board (AUASB) and New Zealand Auditing and Assurance Standards Board (NZAuASB) (including AUASB and NZAuASB communication protocols)**

For the purposes of this draft, NZAuASB specific text is highlighted in Grey and AUASB specific text highlighted in Yellow.

## PART A - INTRODUCTION

### Application Date

1. The policies detailed in this paper apply from [XX December 2020].
2. [NZ]The Financial Reporting Act 2013 requires the External Reporting Board (XRB) to prepare and issue auditing and assurance standards, including the professional and ethical standards that govern the professional conduct of auditors, and standard for related services<sup>1</sup>. The NZAuASB has delegated authority from the XRB Board to develop or adopt and issue these auditing and assurance standards in the public interest<sup>2</sup> in New Zealand.<sup>3</sup> All of these standards have legal status under the Financial Reporting Act 2013.
2. [AU] The key strategic objectives set by the Financial Reporting Council (FRC) for the Auditing and Assurance Standards Board (AUASB) include using the International Standards on Auditing (ISAs) to develop Australian Auditing Standards, and modifying the ISAs to conform to the Australian regulatory environment, in the public interest<sup>3</sup> in Australia.<sup>3</sup>

### **Purpose of this paper**

<sup>1</sup> Agreed upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.

<sup>2</sup> The [New Zealand/Australian] standard's responsiveness to the public interest in [New Zealand/Australia] to be assessed with reference to the qualitative characteristics in the Public Interest Framework set out in Appendix 1

<sup>3</sup> The [New Zealand/Australian] standard's responsiveness to the public interest in [New Zealand/Australia] to be assessed with reference to the qualitative characteristics in the Public Interest Framework set out in Appendix 1

2. The purpose of this paper is to set out the principles of convergence to international standards and harmonisation with [Australian/New Zealand] standards to be used as the framework for the standard setting process of the [NZAuASB/AUASB].
3. It is expected that this paper will be revised from time to time to take account of changes to the [XRB's/Australian] financial reporting framework.

## Objectives

4.3. [NZ] The key strategic objectives set by the XRB Board for the NZAuASB include:

- to adopt international auditing and assurance standards, including the professional and ethical standards for assurance practitioners, and standards for related services<sup>4</sup>, in New Zealand unless there are strong reasons not to (which the Board describes as “compelling reasons”); and
- to work with the Australian Auditing and Assurance Board (AUASB) towards the establishment of harmonised standards based on international standards.

3. [AU] In implementing the FRC’s strategic direction, the AUASB has determined the following objectives:

- To adopt international auditing and assurance standards in Australia unless there are strong reasons not to (which the AUASB describes as “compelling reasons”); and
- To work with the New Zealand Auditing and Assurance Standards Board (NZAuASB) towards the establishment of harmonised standards based on international standards.

4. A key aspect of the NZAuASB’s/AUASB’s strategic objectives is the international convergence approach of international and local standards. Implicit in this approach is the need for the NZAuASB/AUASB to mostly be a “standards-taker”, i.e. to use the international standards as a base for New Zealand/Australian standards. For those standards to be appropriate in New Zealand/Australia, the NZAuASB/AUASB seek to input into and influence international standards<sup>5</sup> during appropriate the various stages of standards development to ensure high global standards that are both applicable in New Zealand/Australia and in the public interest.

## Purpose of this paper

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<sup>4</sup> Agreed upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.

<sup>5</sup> Xref to relevant policy

5. The purpose of this paper is to set out the principles of convergence to international standards and harmonisation with [Australian/New Zealand] standards to be used as the framework for the standard setting process of the [NZAuASB/AUASB].
6. It is expected that this paper will be revised from time to time to take account of changes to the [XRB's/Australian] financial reporting framework.

## **PART B – MODIFICATIONS FROM INTERNATIONAL STANDARDS (“THE COMPELLING REASON TEST”)**

### **PRINCIPLES OF THIS POLICY Principles of Convergence to International Standards**

7. The [XRB Board/AUASB] recognises that the [NZAuASB/AUASB] may consider modifying international standards for application in [New Zealand/Australia] under either of the objectives of this policy. The [XRB Board/AUASB] considers such modifications acceptable provided that they consider the public interest, and do not conflict with or result in lesser requirements than the international standards.
8. For the purposes of this policy:
  - a. Factors the [NZAuASB/AUASB] should consider when assessing whether modifications to the international standards are in the public interest are described in Appendix 1.
  - b. The test to determine if modifications do not conflict with or result in lesser requirements than the international standards is described in paragraphs ~~98~~ to ~~110~~ below.
  - c. The international standards should be adopted, and ~~should be~~ modified only if there are compelling reasons to do so. This ‘Compelling Reasons Test’ is described further in paragraphs ~~124~~ – ~~143~~ below.
9. The IAASB Policy Position, *Modifications to International Standards of the IAASB- A Guide for National Standard Setters that Adopt IAASB’s International Standards but Find it necessary to Make Limited Modifications* (July 2006) sets out the policy that National Standard Setters (NSS) must comply with in order to assert compliance with the international standards when making amendments.
10. The principles of convergence set out in this paper adhere to the principles set out in the IAASB’s Policy Position which will enable the [NZAuASB/AUASB] to assert compliance with the international standards when making amendments.
11. When making amendments to an international standard, for the purpose of conformity under the IAASB’s policy position, and to meet the strategic objectives of the [XRB Board/AUASB]:
  - a. Additions to an international standard are limited to the following:
    - i. National legal and regulatory requirements.

- ii. Other requirements or guidance that are not lesser or in conflict with the current requirements or guidance in the international standard.

NB: Any additions made under paragraph 10(a)(ii) are to be communicated to the IAASB for future consideration.

- b. Deletions from, or other amendments to, an international standard are limited to the following:
  - i. The elimination of options/alternatives provided for in the international standard.
  - ii. Requirements or application guidance which law or regulation does not permit, or which require amendment to be consistent with law or regulation.
  - iii. Requirements or application guidance where the international standard recognises that different practices may apply in different jurisdictions and this is the case for [New Zealand/Australia].

NB: Where deletions are made in accordance with paragraph 10(b)(ii) or 10(b)(iii), the objective of any deleted requirement must still be met.

### **Modifications from International Standards (“The Compelling Reason Test”)**

12. In the case of an international standard that is being reviewed for the purpose of adoption in [New Zealand/Australia], the compelling reasons test for modifications is triggered where the international standard does not reflect, or is not consistent with:

- a. the [New Zealand/Australian] regulatory arrangements; or
- b. existing and newly identified principles and practices that are considered appropriate in the public interest<sup>6</sup> in [New Zealand/Australia] (including in the use of significant terminology).

13. Where the international standard does not reflect, or is not consistent with [New Zealand/Australian] regulatory arrangements, the following criteria have to be met before the standard is modified:

- (1) the standard can be modified to result in a standard the application of which results in effective and efficient compliance with the legal framework in [New Zealand/Australia]; and
- (2) the modification to the standard does not result in a standard that conflicts with, or results in lesser requirements than the international standard.

14. Where the international standard does not reflect, or is not consistent with, existing and newly identified principles and practices that are considered appropriate in the public interest in [New Zealand/Australia], the following criteria have to be met before the standard is modified:

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<sup>6</sup> The [New Zealand/Australian] standard’s responsiveness to the public interest in [New Zealand/Australia] to be assessed with reference to the qualitative characteristics in the Public Interest Framework set out in Appendix 1

- (1) the standard can be modified to result in a standard that:
    - a. the application of which results in compliance with existing and newly identified principles and practices considered appropriate in the public interest<sup>7</sup> in [New Zealand/Australia] by the [NZAuASB/AUASB];
    - b. is clear and promotes consistent application by all practitioners in [New Zealand/Australia];
    - c. promotes significant improvement in audit/assurance quality (as described by the IAASB's Framework for Audit Quality) in the [New Zealand/Australian] environment; and
  - (2) the relative benefits of modifying the standard outweigh the costs (with cost primarily being compliance cost and the cost of differing from international standards and the [Australian/New Zealand] standards, and benefit primarily relating to audit/assurance quality); and
  - (3) the modification to the standard does not result in a standard that:
    - a. conflicts with, or results in lesser requirements than the international standard;
    - b. is overly complex and confusing; or
    - c. inadvertently changes the meaning or intent of the international standard wording or places more onerous requirements on practitioners in [New Zealand/Australia] than necessary.
15. Any deletions from the international standards should be clearly noted, and any additions clearly marked as [New Zealand/Australian] paragraphs.
16. Minor wording and spelling changes (as opposed to changes reflecting the use of significant terminology), where the intent remains the same, need not be reflected in the [New Zealand/Australian] standard as a modification to the international standard.
17. The principles of convergence to the IAASB [and IESBA standards] are set out in a flowchart in Appendix X, and the principles of harmonisation with the [New Zealand/Australian] standards are set out in a flowchart in Appendix Y.

## **PART C – HARMONISATION OF AUSTRALIAN AND NEW ZEALAND STANDARDS**

### **Principles of Harmonisation**

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<sup>7</sup> The standard's responsiveness to the public interest to be assessed with reference to the qualitative characteristics in the Public Interest Framework

18. The joint objective of the NZAuASB and AUASB is to achieve a harmonised set of assurance standards between New Zealand and Australia, based on international standards.<sup>8</sup> This co-operation contributes to the outcome framework of the Single Economic Market which was established by the New Zealand and Australian Prime Ministers in 2009. The aim of the framework is to enable businesses, consumers, and investors to conduct operations across the Tasman in a seamless regulatory environment.<sup>9</sup>

19. The approach to harmonisation set out in this paper acknowledges the principles that:

- a. Regulatory harmonisation requires a flexible approach that takes account of both the benefits and costs of a particular solution.
- b. Achieving harmonisation in relation to the Australian and New Zealand assurance standards benefits from a collaborative approach to the adoption of the international standards in the respective jurisdictions, based on a common set of principles (in particular, the compelling reason test).
- c. In seeking harmonisation, the standards should be consistent or compatible to the extent that they do not result in barriers for users of the standards in the Trans-Tasman environment.
- d. However A recognition that there may be instances where the standards will differ in the two jurisdictions because of country specific requirements and the public interest considerations in each country jurisdiction.

#### Harmonisation with Australian/New Zealand standard based on an equivalent international standard

17. When considering harmonisation with an [Australian/New Zealand] standard that has been adopted in accordance with the compelling reasons test, the NZAuASB/AUASB will consider whether any changes made by the AUASB/NZAuASB to the [Australian/New Zealand] standard covers a matter not covered in the international standard which reflects current and newly identified principles and practices that are also considered appropriate in the public interest in [New Zealand/Australia].

18. This includes considering whether:

(1) the modification will result in a standard:

- a. the application of which results in compliance with the legal framework or current and newly identified principles or practices considered appropriate in the public interest<sup>10</sup> in [New Zealand/Australia] by the [NZAuASB/AUASB];

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<sup>10</sup> The standard's responsiveness to the public interest to be assessed with reference to the qualitative characteristics in the Public Interest Framework in Appendix 1



- b. that is clear and promotes consistent application by all practitioners, and (where applicable) enforcement by all regulators, in [New Zealand/Australia];
  - c. that promotes significant improvements in audit/assurance quality (as described by the IAASB's Framework for Audit Quality) in the [New Zealand/Australian] environment.
  - d. does not unnecessarily create a barrier to relevant Trans-Tasman activity.
- (2) the relative benefits of harmonising the standards outweigh the costs (with cost primarily being compliance cost and cost of differing from the Australian/New Zealand standard and the benefit primarily relating to audit/assurance quality); and
- (3) a decision not to harmonise the standards (in any particular respect) does not result in a standard that creates an unjustifiable barrier to businesses, consumers, and investors conducting operations across the Tasman in a seamless regulatory environment.

### **Development and harmonisation of domestic standards with no international equivalent**

19. When considering developing a standard for which there is no equivalent international standard, or revising an international standard which is considered out of date and is unlikely to be revised in the immediate future, compelling reasons for developing or revising the standard are:
- a. the standard addresses public interest<sup>11</sup> matters within the [New Zealand/Australian] environment;
  - b. the new or revised standard will promote significant improvements in audit/assurance quality in the [New Zealand/Australian] environment; and
  - c. the benefit of applying the standard will outweigh the costs (with cost primarily being compliance cost and benefit primarily relating to audit/assurance quality).
20. Where there is an existing equivalent [Australian/New Zealand] standard, the development of a [New Zealand/Australian] standard should be harmonised with the equivalent [Australian/New Zealand] standard by:
- a. using the existing [Australian/New Zealand] standard as a starting point;
  - b. liaising with the [AUASB/NZAuASB] on compelling reason differences; and
  - c. applying the same approach to harmonisation as for the adoption of an international standard.
21. Compelling reasons for differences between New Zealand and Australian standards are where:

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<sup>11</sup> With reference to the qualitative characteristics in the Public Interest Framework

- a. different regulatory requirements apply; and/or
- b. different principles and practices are considered appropriate to meet the public interest in each jurisdiction (including the use of significant terminology).

## **PART D - AUASB AND NZAuASB COMMUNICATION PROTOCOLS IN STANDARD SETTING**

22. The following protocols between the AUASB and the NZAuASB apply to ensure a joint consideration of compelling reason amendments and harmonisation during the two boards' standard setting processes.

### **Overall principles**

23. The overall principles are that there should be sufficient appropriate communication, dialogue and sharing of information and the position or decisions of each Board, throughout each stage of the process on-of-theo development of auditing and assurance standards, in order to:

- reduce the risk of unintended differences in the final auditing and assurance standards approved by each Board;
- enhance the individual and collective understanding of each Board and the effective application of the compelling reason test in each jurisdiction;
- enhance the quality and robustness of each Board's debate and consideration of issues relevant to the development and promulgation of auditing and assurance standards through the sharing of views and discussions of each Board on a particular matter; and
- facilitate, or enhance, the accountability that each Board has back to their respective Governments for the contribution to, or delivery on, the Trans-Tasman outcomes framework, in particular, enhancing the ability for auditors in one jurisdiction to operate in the other jurisdiction through the effective harmonisation of auditing and assurance standards.

### **Sharing of information**

24. Communication on the known possible compelling reason amendments in either of the two jurisdictions occurs during the due process of each Board. To mitigate or reduce the risk of unintended differences in the two jurisdictions, the points in the standard setting process for sharing of information are (refer to the flowchart in Appendix Z):

- i. When the IAASB ED is released for exposure internationally (for any issues identified at this stage).
- ii. At the close of the comment period for the international ED, and before finalising the submissions by each Board to the IAASB.
- iii. As soon as the IAASB standard is finalised.

25. As a matter of course staff inform their respective Board of any possible emerging differences/issues throughout the process by liaising with staff from the other Board.

### **Content of the communication**

26. Each Board communicates to the other Board any contentious issues identified with a proposed international standard, and the proposed compelling reason amendments.

27. The content of the communication will depend on the stage reached in the due process of each Board. The communication is to include as much of the following matters that are known at each communication point:

- i. The reason why it is a contentious issue in the particular jurisdiction;
- ii. The proposed amendment to the international standard;
- iii. The rationale as to why the Board considers it to be a compelling reason amendment, with reference to the AUASB and NZAuASB's agreed principles on convergence and harmonisation; and
- iv. A request to the other Board for its view on whether:
  - it is also a contentious issue in its jurisdiction; and
  - the proposed amendment meets the compelling reason test in its jurisdiction.

### **Form/manner of the communication**

28. The form of the communication could be one of the following, or a combination thereof:

- i. Verbal feedback from the respective Chair of the other Board;
- ii. Staff papers prepared based on feedback from staff from the other Board;
- iii. Board meeting papers of the other Board.

### **Resolving differences**

29. Where the two Boards have different views about the matters identified as contentious and/or the compelling reasons for amendments, the Boards jointly consider, debate and resolve any differences [as early as practically possible in the standards development process](#). The appropriate process for this joint consideration is agreed by the two Boards on a case by case basis, and could be one of the following (under direction by each Board):

- A joint Board meeting (for example by videoconference)
- Consideration of joint staff papers at each of the subsequent Board meetings
- Consideration by Chairs and Technical Staff only
- Consideration by Chairs only

30. Where the two Boards reach different conclusions after the joint consideration of their different views on compelling reason amendments, the rationale for the different conclusions are clearly documented and communicated to the audit market in both jurisdictions.

*Draft*

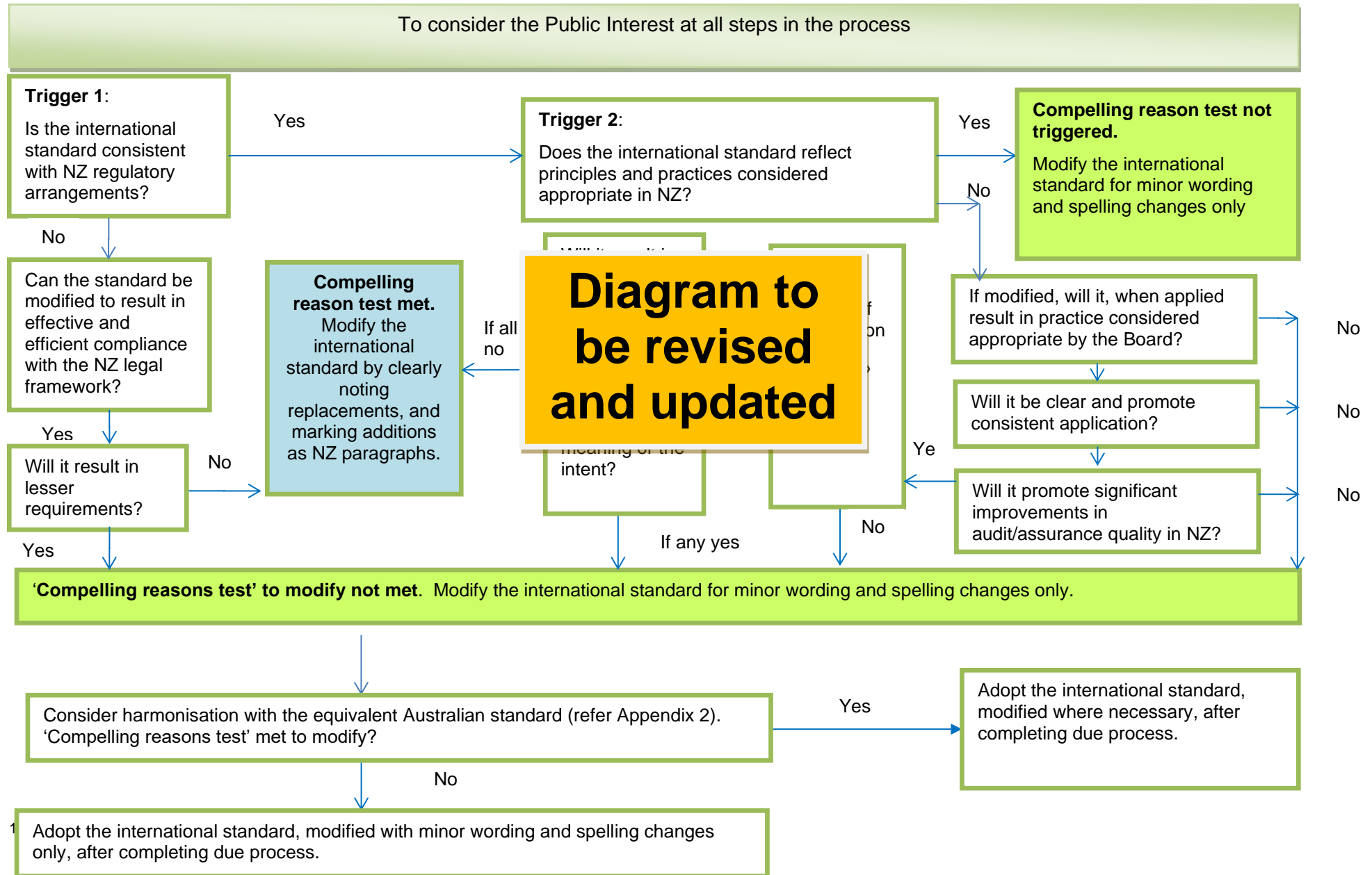
## APPENDIX 1 - Consideration of Public Interest

1. The Monitoring Group<sup>12</sup> issued its report *Strengthening the International Audit and Ethics Standards Setting System* in July 2020 to address the need for more independent audit standard setting, with a key focus on the public interest. The “Public Interest” has not been defined but a Public Interest Framework (PIF) has been developed under which international audit related standard setting activities will be undertaken.
2. The characteristics in the PIF provide a useful frame of reference for the [NZAuASB/AUASB] to assess whether modifications to the international standards for application in [New Zealand/Australia] appropriately considers the public interest (in the context of [New Zealand/Australia]).
3. The PIF sets out the following qualitative characteristics to be used to assess the international standards responsiveness to the public interest, including but not limited to:
  - a. Consistency with priorities established in the strategic planning process
  - b. Coherence with the overall body of standards, to avoid conflict
  - c. Appropriate scope to address key issues, and to specify to whom the standard applies
  - d. Scalability, including proportionality
  - e. Timeliness, without sacrificing quality
  - f. Relevance in recognising and responding to emerging issues, changes in business environment, developments in accounting practices or technology
  - g. Completeness, reflecting results of broad consultation and balancing stakeholder priorities
  - h. Comprehensiveness, by limiting exceptions to the principles
  - i. Clarity and conciseness
  - j. Implementability and ability to be consistently applied
  - k. Enforceable, through clearly stated responsibilities
4. The public interest responsiveness is assessed by applying the qualitative characteristics in the following steps:
  - a. Identify the perspectives and needs of groups with legitimate interests
  - b. Define the desired goal that would allow the standard to best serve user needs.
  - c. Identify criteria to assess responsiveness to the goal
  - d. According to the criteria, reasonably weigh input from different groups
  - e. Assess the expected contribution of the standard to meeting its goal and consider whether it is responsive to the public interest.

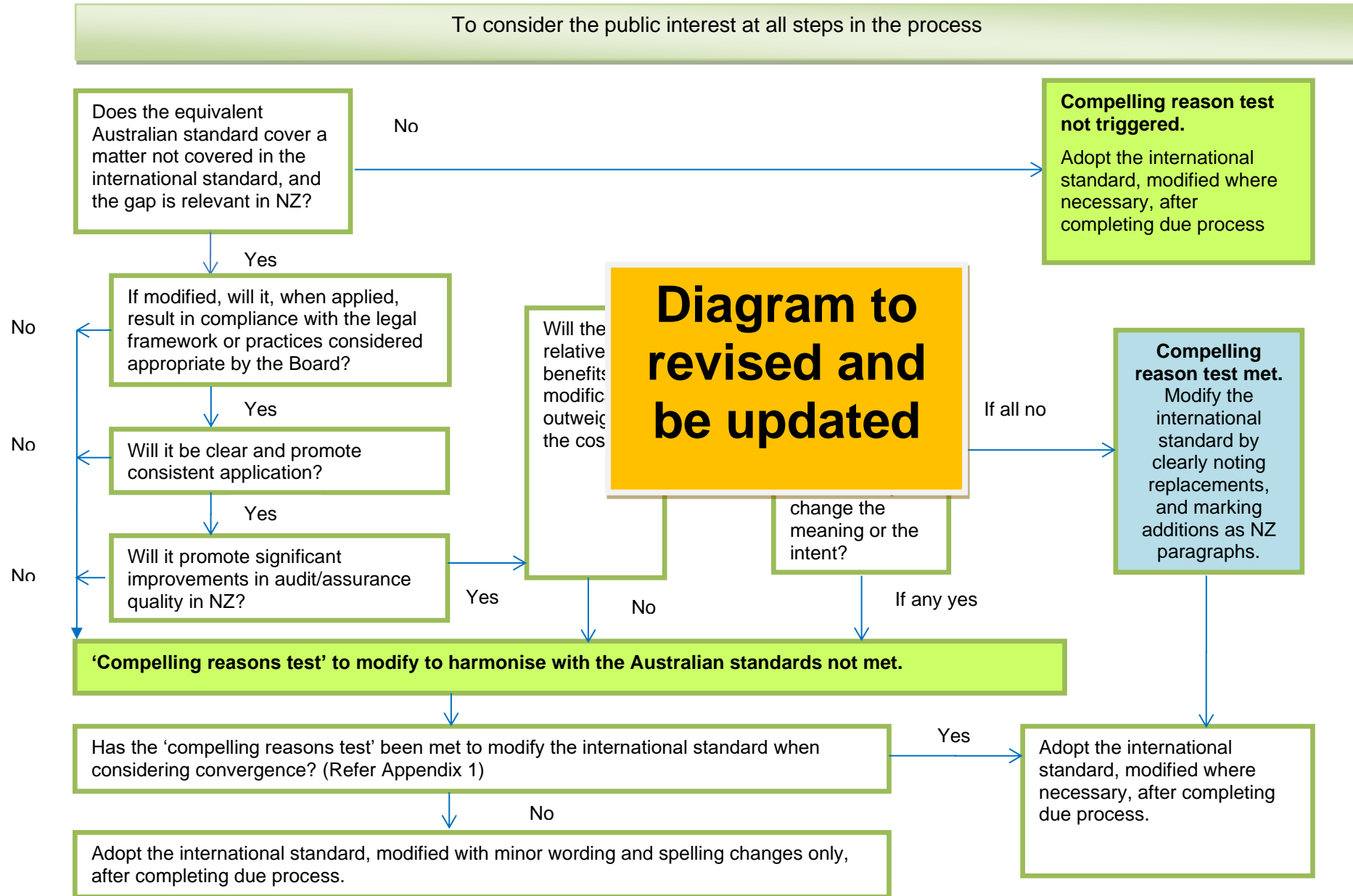
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<sup>12</sup> The members of the Monitoring Group are the Basel Committee on Banking Supervision, European Commission, Financial Stability Board, International Association of Insurance Supervisors, International Forum of Independent Audit Regulators, International Organization of Securities Commissions, and the World Bank Group

**Appendix 1: Flowchart to depict the ‘compelling reasons test’ in the Principles of Convergence with the IAASB and IESBA standards [ To update once the amendments to the compelling reason test have been confirmed]**



**Appendix 2: Flowchart to depict the ‘compelling reasons test’ in the Principles of Harmonisation with the Australian standards**



**Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board (IAASB) [and to the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code)]**

**and**

**Harmonisation with the standards between the Australian Auditing and Assurance Standards Board (AUASB) and New Zealand Auditing and Assurance Standards Board (NZAuASB) (including AUASB and NZAuASB communication protocols)**

**PART A - INTRODUCTION**

**Application Date**

1. The policies detailed in this paper apply from [XX December 2020].
2. The Financial Reporting Act 2013 requires the External Reporting Board (XRB) to prepare and issue auditing and assurance standards, including the professional and ethical standards that govern the professional conduct of auditors, and standard for related services<sup>1</sup>. The NZAuASB has delegated authority from the XRB Board to develop or adopt and issue these auditing and assurance standards in the public interest<sup>2</sup> in New Zealand. All of these standards have legal status under the Financial Reporting Act 2013.

**Objectives**

3. The key strategic objectives set by the XRB Board for the NZAuASB include:
  - to adopt international auditing and assurance standards, including the professional and ethical standards for assurance practitioners, and standards for related services, in New Zealand unless there are strong reasons not to (which the Board describes as “compelling reasons”); and
  - to work with the Australian Auditing and Assurance Board (AUASB) towards the establishment of harmonised standards based on international standards.
4. A key aspect of the NZAuASB’s strategic objectives is the convergence of international and local standards. Implicit in this approach is the need for the NZAuASB to mostly be a “standards-taker”, i.e. to use the international standards

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<sup>1</sup> Agreed upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.

<sup>2</sup> The standard’s responsiveness to the public interest in New Zealand to be assessed with reference to the qualitative characteristics in the Public Interest Framework set out in Appendix 1



as a base for New Zealand standards. For those standards to be appropriate in New Zealand the NZAuASB seek to input into and influence international standards<sup>3</sup> during the various stages of standards development to ensure high global standards that are both applicable in New Zealand and in the public interest.

### **Purpose of this paper**

5. The purpose of this paper is to set out the principles of convergence to international auditing and assurance standards and harmonisation with Australian standards to be used as the framework for the standard setting process of the NZAuASB.
6. It is expected that this paper will be revised from time to time to take account of changes to the XRB's financial reporting framework.

## **PART B – MODIFICATIONS FROM INTERNATIONAL STANDARDS (“THE COMPELLING REASON TEST”)**

### **Principles of Convergence to International Standards**

7. The XRB Board recognises that the NZAuASB may consider modifying international standards for application in New Zealand under either of the objectives of this policy. The XRB Board considers such modifications acceptable provided they consider the public interest, and do not conflict with or result in lesser requirements than the international standards.
8. For the purposes of this policy:
  - a. Factors the NZAuASB should consider when assessing whether modifications to the international standards are in the public interest are described in Appendix 1.
  - b. The test to determine if modifications do not conflict with or result in lesser requirements than the international standards is described in paragraphs 9 to 11 below.
  - c. The international standards should be adopted and modified only if there are compelling reasons to do so. This ‘Compelling Reasons Test’ is described further in paragraphs 12 – 14 below.
9. The IAASB Policy Position, *Modifications to International Standards of the IAASB- A Guide for National Standard Setters that Adopt IAASB’s International Standards but Find it necessary to Make Limited Modifications (July 2006)* sets out the policy that National Standard Setters (NSS) must comply with in order to assert compliance with the international standards when making amendments.
10. The principles of convergence set out in this paper adhere to the principles set out in the IAASB’s Policy Position which will enable the NZAuASB to assert compliance with the international standards when making amendments.

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<sup>3</sup> [Xref to relevant policy](#)

11. When making amendments to an international standard, for the purpose of conformity under the IAASB's policy position, and to meet the strategic objectives of the XRB Board:

a. Additions to an international standard are limited to the following:

- i. National legal and regulatory requirements.
- ii. Other requirements or guidance that are not lesser or in conflict with the current requirements or guidance in the international standard.

NB: Any additions made under paragraph 10(a)(ii) are to be communicated to the IAASB for future consideration.

b. Deletions from, or other amendments to, an international standard are limited to the following:

- i. The elimination of options/alternatives provided for in the international standard.
- ii. Requirements or application guidance which law or regulation does not permit, or which require amendment to be consistent with law or regulation.
- iii. Requirements or application guidance where the international standard recognises that different practices may apply in different jurisdictions and this is the case for New Zealand.

NB: Where deletions are made in accordance with paragraph 10(b)(ii) or 10(b)(iii), the objective of any deleted requirement must still be met.

### **Modifications from International Standards (“The Compelling Reason Test”)**

12. In the case of an international standard that is being reviewed for the purpose of adoption in New Zealand the compelling reasons test for modifications is triggered where the international standard does not reflect, or is not consistent with:

- a. the New Zealand regulatory arrangements; or
- b. existing and newly identified principles and practices that are considered appropriate in the public interest<sup>4</sup> in New Zealand (including in the use of significant terminology).

13. Where the international standard does not reflect, or is not consistent with New Zealand regulatory arrangements, the following criteria have to be met before the standard is modified:

- (1) the standard can be modified to result in a standard the application of which results in effective and efficient compliance with the legal framework in New Zealand; and
- (2) the modification to the standard does not result in a standard that conflicts with, or results in lesser requirements than the international standard.

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<sup>4</sup> The New Zealand standard's responsiveness to the public interest in New Zealand to be assessed with reference to the qualitative characteristics in the Public Interest Framework set out in Appendix 1

14. Where the international standard does not reflect, or is not consistent with, existing and newly identified principles and practices that are considered appropriate in the public interest in New Zealand, the following criteria have to be met before the standard is modified:

(1) the standard can be modified to result in a standard that:

- a. the application of which results in compliance with existing and newly identified principles and practices considered appropriate in the public interest<sup>5</sup> in New Zealand by the NZAuASB;
- b. is clear and promotes consistent application by all practitioners in New Zealand;
- c. promotes significant improvement in audit/assurance quality (as described by the IAASB's Framework for Audit Quality) in the New Zealand environment; and

(2) the relative benefits of modifying the standard outweigh the costs (with cost primarily being compliance cost and the cost of differing from international standards and the Australian standards, and benefit primarily relating to audit/assurance quality); and

(3) the modification to the standard does not result in a standard that:

- a. conflicts with, or results in lesser requirements than the international standard;
- b. is overly complex and confusing; or
- c. inadvertently changes the meaning or intent of the international standard wording or places more onerous requirements on practitioners in New Zealand than necessary.

15. Any deletions from the international standards should be clearly noted, and any additions clearly marked as New Zealand paragraphs.

16. Minor wording and spelling changes (as opposed to changes reflecting the use of significant terminology), where the intent remains the same, need not be reflected in the New Zealand standard as a modification to the international standard.

17. The principles of convergence to the IAASB [and IESBA standards] are set out in a flowchart in Appendix X, and the principles of harmonisation with the Australian standards are set out in a flowchart in Appendix Y.

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<sup>5</sup> The New Zealand standard's responsiveness to the public interest to be assessed with reference to the qualitative characteristics in the Public Interest Framework

## **PART C – HARMONISATION OF AUSTRALIAN AND NEW ZEALAND STANDARDS**

### **Principles of Harmonisation**

18. The joint objective of the NZAuASB and AUASB is to achieve a harmonised set of assurance standards between New Zealand and Australia, based on international standards.<sup>6</sup> This co-operation contributes to the outcome framework of the Single Economic Market which was established by the New Zealand and Australian Prime Ministers in 2009. The aim of the framework is to enable businesses, consumers, and investors to conduct operations across the Tasman in a seamless regulatory environment.<sup>7</sup>
19. The approach to harmonisation set out in this paper acknowledges the principles that:
- a. Regulatory harmonisation requires a flexible approach that takes account of both the benefits and costs of a particular solution.
  - b. Achieving harmonisation in relation to the Australian and New Zealand assurance standards benefits from a collaborative approach to the adoption of the international standards in the respective jurisdictions, based on a common set of principles (in particular, the compelling reason test).
  - c. In seeking harmonisation, the standards should be consistent or compatible to the extent that they do not result in barriers for users of the standards in the Trans-Tasman environment.
  - d. A recognition that there may be instances where the standards will differ in the two jurisdictions because of country specific requirements and the public interest considerations in each jurisdiction.

### **Harmonisation with Australian standard based on an equivalent international standard**

17. When considering harmonisation with an Australian standard that has been adopted in accordance with the compelling reasons test, the NZAuASB will consider whether any changes made by the AUASB to the Australian standard covers a matter not covered in the international standard which reflects current and newly identified principles and practices that are also considered appropriate in the public interest in New Zealand.
18. This includes considering whether:
- (1) the modification will result in a standard:

- a. the application of which results in compliance with the legal framework or current and newly identified principles or practices considered appropriate in the public interest<sup>8</sup> in New Zealand by the NZAuASB;
  - b. that is clear and promotes consistent application by all practitioners, and (where applicable) enforcement by all regulators, in New Zealand;
  - c. that promotes significant improvements in audit/assurance quality (as described by the IAASB's Framework for Audit Quality) in the New Zealand environment.
  - d. does not unnecessarily create a barrier to relevant Trans-Tasman activity.
- (2) the relative benefits of harmonising the standards outweigh the costs (with cost primarily being compliance cost and cost of differing from the Australian standard and the benefit primarily relating to audit/assurance quality); and
- (3) a decision not to harmonise the standards (in any particular respect) does not result in a standard that creates an unjustifiable barrier to businesses, consumers, and investors conducting operations across the Tasman in a seamless regulatory environment.

### **Development and harmonisation of domestic standards with no international equivalent**

19. When considering developing a standard for which there is no equivalent international standard, or revising an international standard which is considered out of date and is unlikely to be revised in the immediate future, compelling reasons for developing or revising the standard are:
- a. the standard addresses public interest<sup>9</sup> matters within the New Zealand environment;
  - b. the new or revised standard will promote significant improvements in audit/assurance quality in the New Zealand environment; and
  - c. the benefit of applying the standard will outweigh the costs (with cost primarily being compliance cost and benefit primarily relating to audit/assurance quality).
20. Where there is an existing equivalent Australian standard, the development of a New Zealand standard should be harmonised with the equivalent Australian standard by:
- a. using the existing Australian standard as a starting point;
  - b. liaising with the AUASB on compelling reason differences; and

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<sup>8</sup> The standard's responsiveness to the public interest to be assessed with reference to the qualitative characteristics in the Public Interest Framework in Appendix 1

<sup>9</sup> With reference to the qualitative characteristics in the Public Interest Framework

- c. applying the same approach to harmonisation as for the adoption of an international standard.
21. Compelling reasons for differences between New Zealand and Australian standards are where:
- a. different regulatory requirements apply; and/or
  - b. different principles and practices are considered appropriate to meet the public interest in each jurisdiction (including the use of significant terminology).

## **PART D - AUASB AND NZAuASB COMMUNICATION PROTOCOLS IN STANDARD SETTING**

22. The following protocols between the AUASB and the NZAuASB apply to ensure a joint consideration of compelling reason amendments and harmonisation during the two boards' standard setting processes.

### **Overall principles**

23. The overall principles are that there should be sufficient appropriate communication, dialogue and sharing of information and the position or decisions of each Board, throughout each stage of the process to develop auditing and assurance standards, in order to:
- reduce the risk of unintended differences in the final auditing and assurance standards approved by each Board;
  - enhance the individual and collective understanding of each Board and the effective application of the compelling reason test in each jurisdiction;
  - enhance the quality and robustness of each Board's debate and consideration of issues relevant to the development and promulgation of auditing and assurance standards through the sharing of views and discussions of each Board on a particular matter; and
  - facilitate, or enhance, the accountability that each Board has back to their respective Governments for the contribution to, or delivery on, the Trans-Tasman outcomes framework, in particular, enhancing the ability for auditors in one jurisdiction to operate in the other jurisdiction through the effective harmonisation of auditing and assurance standards.

### **Sharing of information**

24. Communication on the known possible compelling reason amendments in either of the two jurisdictions occurs during the due process of each Board. To mitigate or reduce the risk of unintended differences in the two jurisdictions, the points in the standard setting process for sharing of information are (refer to the flowchart in Appendix Z):
- i. When the IAASB ED is released for exposure internationally (for any issues identified at this stage).

- ii. At the close of the comment period for the international ED, and before finalising the submissions by each Board to the IAASB.
  - iii. As soon as the IAASB standard is finalised.
25. As a matter of course staff inform their respective Board of any possible emerging differences/issues throughout the process by liaising with staff from the other Board.

### **Content of the communication**

26. Each Board communicates to the other Board any contentious issues identified with a proposed international standard, and the proposed compelling reason amendments.
27. The content of the communication will depend on the stage reached in the due process of each Board. The communication is to include as much of the following matters that are known at each communication point:
- i. The reason why it is a contentious issue in the particular jurisdiction;
  - ii. The proposed amendment to the international standard;
  - iii. The rationale as to why the Board considers it to be a compelling reason amendment, with reference to the AUASB and NZAuASB's agreed principles on convergence and harmonisation; and
  - iv. A request to the other Board for its view on whether:
    - it is also a contentious issue in its jurisdiction; and
    - the proposed amendment meets the compelling reason test in its jurisdiction.

### **Form/manner of the communication**

28. The form of the communication could be one of the following, or a combination thereof:
- i. Verbal feedback from the respective Chair of the other Board;
  - ii. Staff papers prepared based on feedback from staff from the other Board;
  - iii. Board meeting papers of the other Board.

### **Resolving differences**

29. Where the two Boards have different views about the matters identified as contentious and/or the compelling reasons for amendments, the Boards jointly consider, debate and resolve any differences as early as practically possible in the standards development process. The appropriate process for this joint consideration is agreed by the two Boards on a case by case basis, and could be one of the following (under direction by each Board):
- A joint Board meeting (for example by videoconference)
  - Consideration of joint staff papers at each of the subsequent Board meetings
  - Consideration by Chairs and Technical Staff only

- Consideration by Chairs only

30. Where the two Boards reach different conclusions after the joint consideration of their different views on compelling reason amendments, the rationale for the different conclusions are clearly documented and communicated to the audit market in both jurisdictions.

*Draft*



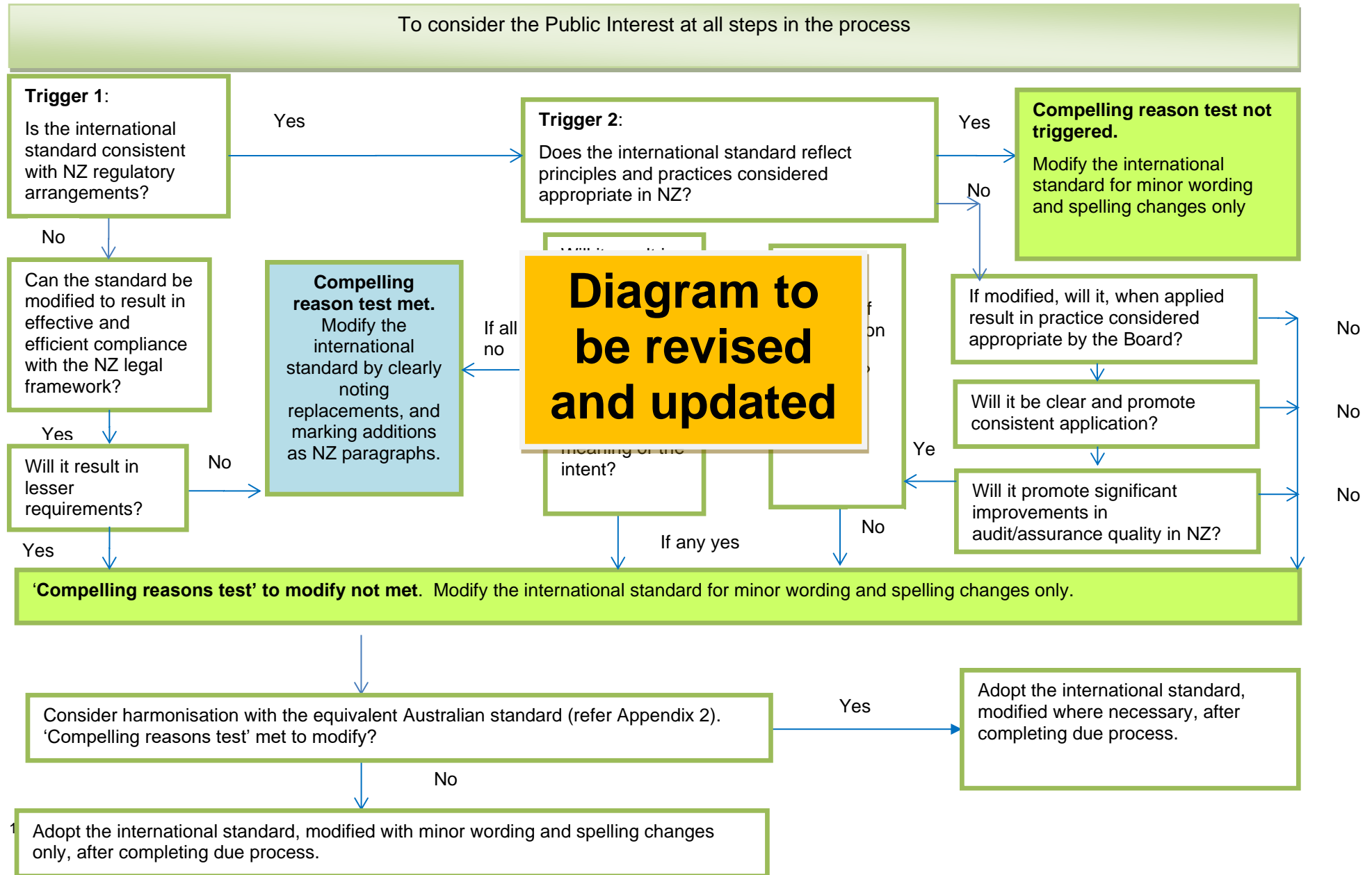
## APPENDIX 1 - Consideration of Public Interest

1. The Monitoring Group<sup>10</sup> issued its report *Strengthening the International Audit and Ethics Standards Setting System* in July 2020 to address the need for more independent audit standard setting, with a key focus on the public interest. The “Public Interest” has not been defined but a Public Interest Framework (PIF) has been developed under which international audit related standard setting activities will be undertaken.
2. The characteristics in the PIF provide a useful frame of reference for the NZAuASB to assess whether modifications to the international standards for application in New Zealand appropriately considers the public interest (in the context of New Zealand).
3. The PIF sets out the following qualitative characteristics to be used to assess the international standards responsiveness to the public interest, including but not limited to:
  - a. Consistency with priorities established in the strategic planning process
  - b. Coherence with the overall body of standards, to avoid conflict
  - c. Appropriate scope to address key issues, and to specify to whom the standard applies
  - d. Scalability, including proportionality
  - e. Timeliness, without sacrificing quality
  - f. Relevance in recognising and responding to emerging issues, changes in business environment, developments in accounting practices or technology
  - g. Completeness, reflecting results of broad consultation and balancing stakeholder priorities
  - h. Comprehensiveness, by limiting exceptions to the principles
  - i. Clarity and conciseness
  - j. Implementability and ability to be consistently applied
  - k. Enforceable, through clearly stated responsibilities
4. The public interest responsiveness is assessed by applying the qualitative characteristics in the following steps:
  - a. Identify the perspectives and needs of groups with legitimate interests
  - b. Define the desired goal that would allow the standard to best serve user needs.
  - c. Identify criteria to assess responsiveness to the goal
  - d. According to the criteria, reasonably weigh input from different groups
  - e. Assess the expected contribution of the standard to meeting its goal and consider whether it is responsive to the public interest.

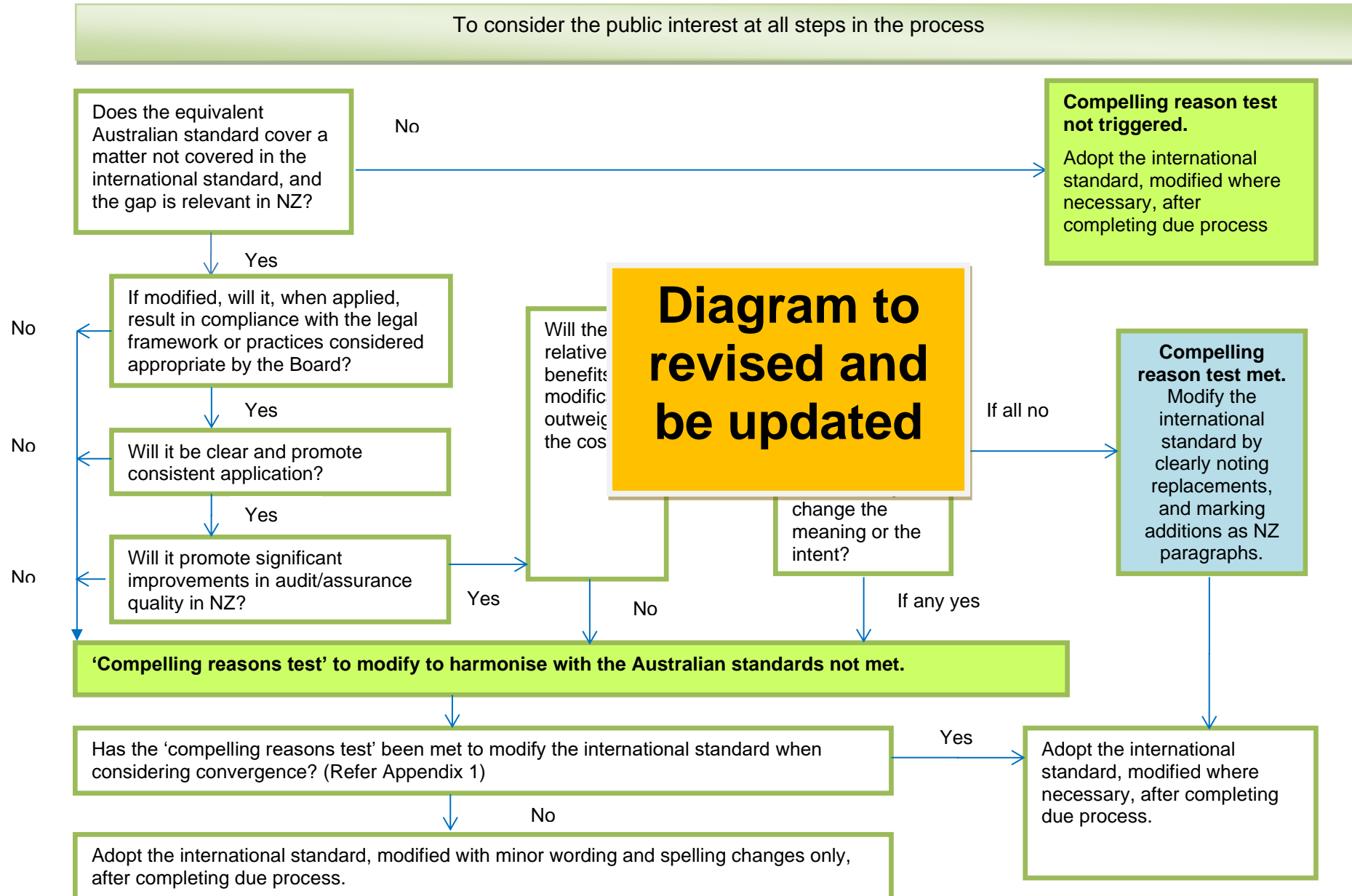
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<sup>10</sup> The members of the Monitoring Group are the Basel Committee on Banking Supervision, European Commission, Financial Stability Board, International Association of Insurance Supervisors, International Forum of Independent Audit Regulators, International Organization of Securities Commissions, and the World Bank Group

**Appendix 1: Flowchart to depict the ‘compelling reasons test’ in the Principles of Convergence with the IAASB and IESBA standards [ To update once the amendments to the compelling reason test have been confirmed]**



**Appendix 2: Flowchart to depict the ‘compelling reasons test’ in the Principles of Harmonisation with the Australian standards**





NZ AUDITING  
AND ASSURANCE  
STANDARDS BOARD

**DATE:** 20 November 2020

**TO:** Members of the New Zealand Auditing and Assurance Standards Board

**FROM:** Peyman Momenan

**SUBJECT:** **International Update**

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### **Introduction**

1. This Update summarises the significant news of the IAASB, other national auditing standards-setting bodies and professional organisations for the Board's information, for October and November 2020.

### **International Federation of Accountants (IFAC)**

1. As the global accountancy profession began adapting to the COVID-19 pandemic and its consequences, IFAC convened a series of roundtable discussions to understand the implications of the pandemic for professional accountants and leaders, and how their experiences will affect the future of accountancy and accountancy skills.

In November 2020, IFAC published a summary of these findings, [Accountancy Skills Evolution: Impact of COVID-19 & the Path Forward](#). This whitepaper outlines the key themes our stakeholders shared, including accelerated ways of working, impact of technology, practices that align to new societal demands, and the right balance of skills, which collectively illustrate a roadmap for the professional accountant.

The roundtable discussions and emerging themes also influenced the structure and content of the upcoming virtual global summit, [The Anticipatory Accountant: Global Trends Transforming Learning & Development](#). The summit, which features world-renowned futurist Daniel Burrus and special guest Tom Hood, continues these conversations and focuses on three broad themes: technology, the environment, and society.

2. Professional accountants make a significant contribution to the economy at the local, national and global levels. IFAC partnered with the [Centre for Economics and Business Research \(Cebr\)](#), one of the world's leading economics consultancies, to get a clearer understanding of these contributions.

[The results are striking.](#)

In each measure reviewed, a greater number of accountants correlates to better economic performance. Moreover, professional accountants who are members of [IFAC member professional accountancy organizations](#) (PAOs) correlate to even stronger performance on economic indicators.

In October 2020, IFAC together with ICAEW, released the second installment in its **Anti-Money Laundering: The Basics** educational series: [Installment 2: A Risk-Based Approach](#).

The publication is part of a 6-month short series helping professional accountants enhance their understanding of how money laundering works, the risks they face, and what they can do to mitigate these risks and make a positive contribution to the public interest.

The [first installment](#) in the series provided a general overview of AML, including a definition of money laundering and an analysis of key concepts professional accountants must understand. The installment series, with its focus on accessibility and ease of use, will be a resource for Small and Medium Practices (SMPs,) and accountants less familiar with AML, while also providing guidance for those looking for a quick refresher or reference.

**Anti-Money Laundering: The Basics** will be featured on both the IFAC and ICAEW websites and available for download for free. To be globally relevant, the series uses the risk-based approach of the Financial Action Task Force (FATF) – the global money laundering and terrorist financing watchdog -- as a starting

### **Anti-Fraud Collaboration (AFC):**

1. AFC new report, [Scepticism in Practice](#), explores the importance of more critically assessing the potential for fraud and examining certain biases that can leave organizations vulnerable to deceptive activities and misconduct. The report provides tools and techniques needed to shift organizations toward a better balance between trust and scepticism as it relates to fraud and other important considerations.  
[Read the full report here.](#)

### **International Auditing and Assurance Standards Board (IAASB)**

1. The IAASB Ongoing projects (refer to appendix 1).
2. The IAASB recently hosted three virtual roundtables with experts and leaders exploring issues and challenges related to fraud and going concern. These roundtables focused on:
  1. The impact of technology advancements on fraud perpetration and detection;
  2. The “expectation gap”, or differences between public perceptions and the auditor’s responsibilities for fraud and going concern; and
  3. Fraud and going concern in audits of less complex entities.

[This publication](#) details the roundtables and what the IAASB heard.

Please read this document as it is relevant to Agenda item 3

3. In November 2020, the IAASB Technology Working Group released a new [non-authoritative frequently asked questions publication](#) on using automated tools and techniques in identifying and assessing risks of material misstatements in accordance with International Standard on Auditing 315 (Revised 2019), *Identifying and Assessing Risks of Material Misstatement*.

The publication assists auditors to understand the types of automated tools and techniques that can be used, and how they can be used, in performing risk assessment procedures. It also addresses considerations regarding the entity’s use of machine learning or artificial intelligence when performing risk assessment procedures.

4. The IAASB has [published video introductions to the new and revised quality management standards](#) in English, French and Spanish. The videos explain the key aspects of the three standards to help stakeholders begin their implementation efforts.

The IAASB recently approved the [suite of new and revised quality management standards](#), which will be released following approval from the Public Interest Oversight Board of the due process later this year. The new and revised quality management standards will become effective on December 15, 2022.

### **International Ethics Standards Board for Accountants (IESBA)**

1. There have been no significant developments related to audit and assurance to report in the period.

### **Accountancy Europe (AE) (former FEE)**

1. By proposing to cut greenhouse gas emissions by at least 55% by 2030, the European Commission (EC) sets Europe on a responsible path to become climate neutral by 2050. To achieve this goal, we need high-quality non-financial data to assess businesses' impact on environmental and social matters. Non-financial information (NFI) is crucial for companies and investors to make sustainable business decisions. NFI is not sufficient though, it needs to be reliable to strengthen confidence in companies and in markets and to progress sustainable finance objectives. Independent assurance on NFI is necessary to enhance its reliability. Join our 26 November webinar [The path to high-quality non-financial information assurance](#) to debate this with us, the EC, businesses and investors. The demand for assurance on NFI has been growing steadily, but the practice still varies across Member States. In February 2020 we [set out](#) how European countries have dealt with relevant requirements in the Non-Financial Reporting Directive (NFRD) and which voluntary assurance practices exist. The EC is currently [reviewing the NFRD](#) and [summarised](#) over 600 responses to the public consultation. Respondents agreed that consistent NFI assurance requirements were needed across Member States and companies and 2/3 of respondents indicated that stricter audit requirements were needed for NFI.
2. Accountancy Europe has submitted [a comment letter](#) to the IAASB for the 'Proposed ISA 600 (Revised): Special Considerations – Audits of Group Financial Statement'.

### **Public Interest Oversight Board of IFAC (IPIOB)**

1. There have been no significant developments related to audit and assurance to report in the period.

### **International Integrated Reporting Council (IIRC)**

1. The International Integrated Reporting Council has, together with CDP, the Climate Disclosure KPMG published their seventh [annual survey](#) of corporate reporting trends in Australia yesterday [10 November 2020], which is particularly interesting in light of the impact of Covid-19 and the push from regulators and investors for enhanced reporting disclosures on climate and pre/non-financial risks.

The survey reveals that a large proportion of Australia's largest listed companies on the ASX200 and ASX50 have now adopted integrated reporting principles when drafting their 2020 annual reports. Featuring interviews with investment managers and asset owners, the survey shows how integrated reporting has enabled these companies to improve the quality of disclosures across a wide variety of factors. 96% of ASX200 companies have been able to clearly report the ways in which they have protected their employees and/or customers during the pandemic (since March 2020). 60% of ASX200 companies and 85% of ASX50 also reported enhanced climate disclosures, especially as a result of the devastating 2019/20 Australian bushfires.

Overall, 79% of ASX200 companies and over 90% of ASX50 companies are focusing their reporting on long-term value creation for their investors and stakeholders, as opposed to short-term financial earnings. These findings confirm the accelerated shift in companies towards integrated reporting and its ability to create more meaningful, qualitative reports.

### **Global Reporting Initiative (GRI)**

1. Research across 27 markets has found that trust in how companies communicate their sustainability performance has increased to a record 51% this year, with significant variations by country.  
The survey from GlobeScan and GRI asked 1,000 people in each location to indicate whether they agree that companies are honest and truthful about their social and environmental performance. The level of trust is the highest since the survey began in 2003, when it was at 30%. Perceptions in Asia are most favorable, with the highest levels of agreement found in Indonesia (81%), Vietnam (80%), and Thailand (79%). The USA, Australia, Canada and the featured EU member states are at the lower end of the ratings, varying from 44% in the USA to 31% in France

### **International Forum of Independent Audit Regulators (IFIAR)**

1. There have been no significant developments related to audit and assurance to report in the period.

### **International Organization of Supreme Audit Institutions (INTOSAI)**

1. There have been no significant developments related to audit and assurance to report in the period.

### **International Organization of Securities Commissions (IOSCO)**

1. Erik Thedéen, Chair of the IOSCO Sustainability Task Force, has published an [open response](#) on 28 October, in response to the open letter from CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI) International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB).  
In the letter, Mr Thedéen wrote 'We welcome your invitation to IOSCO to engage meaningfully' adding that 'we look forward to continuing and deepening our collaboration with your organisations.'

## Australia

### **The Australian Auditing and Assurance Standards Board (AUASB)**

1. There have been no significant developments related to audit and assurance to report in the period.

## United Kingdom

### **FRC**

1. Climate change is a defining issue of our time affecting us all. While for some companies the challenge may be further on the horizon, climate change must be integrated into decision making now if it is to be tackled in an orderly way, according to the [FRC's review](#)..

To move forward, a reporting framework is needed. The FRC supports the introduction of global standards on non-financial reporting and will engage with organisations working to achieve that goal. In the meantime, the FRC encourages UK public interest entities to report against the Task Force on Climate-related Financial Disclosures' (TCFD) 11 recommended disclosures and, with



reference to their sector, using the Sustainability Accounting Standards Board (SASB) metrics. (Read more [here](#)).

2. The Financial Reporting Council (FRC) has today published its [inspection findings](#) into the quality of major local audits in England for the financial year ended 31 March 2019. This is the first such report published by the FRC.

Of the 271 major local audits in the FRC's inspection scope, the FRC reviewed 15 audits across the seven largest audit firms, covering both the financial statement opinion and the Value for Money arrangements conclusion work.

For the financial statement opinion, two audits reviewed by the FRC required significant improvements and seven required improvements. None of the Value for Money conclusions reviewed required more than limited improvement.

Some firms are still not consistently achieving the necessary level of audit quality and therefore need to make further progress. For two firms, Grant Thornton and Mazars, the level of audit quality requires significant improvement, and those firms should perform a detailed Root Cause Analysis of the issues the FRC has identified and put in place an audit quality action plan across local audits to address the FRC's findings.

The key areas of concern requiring action by some audit firms were the valuation of property (including investment property), sufficiency of audit procedures over the occurrence and completeness of expenditure, the response to fraud risks, the impairment of receivables, valuation of pension assets and the effectiveness of the Engagement Quality Control review.

3. The Financial Reporting Council's [2020 Key Facts and Trends in the Accountancy Profession](#) (KFAT) reveals fees for audit work at the largest UK companies increased in 2019 as audit quality improvements continue to be a major focus.

The Big Four's fees for non-audit work for audited entities declined 20.8% in 2019 according to the new data, revealing a positive market shift ahead of operational separation by 2024. This reflects the application of the non-audit services fee cap for public interest entities for the first time.

From a competition perspective, the Big Four continued to audit all of the FTSE 100 in 2019, however, the two largest firms outside the Big Four audited 10 FTSE 250 companies, increasing their share of the FTSE 250 market from 3.2% in 2017 to 4.8% in 2019.

4. The Financial Reporting Council (FRC) has today published its [Annual Review of Corporate Reporting](#), which reveals the FRC's 'top ten' areas where improvements to reporting quality are needed so users of accounts have a clearer understanding of company performance and position.

In the last year, the FRC reviewed 216 accounts and wrote to 96 companies with substantive questions about their reports. Fourteen companies were required to restate their accounts in instances where significant non-compliance occurred. The frequency of restatements relating to cash flow statements remains a concern.

Ahead of the 2020/21 reporting cycle, preparers will face additional demands to produce high-quality reports against the backdrop of the Covid-19 pandemic and increased economic uncertainty. However, the key considerations for companies when preparing their report and accounts, such as clarity, consistency, relevance and transparency, remain. The FRC also expects disclosure of forward-looking information that is specific to the entity and which provides insights into the board's assessment of business prospects and the methods and assumptions underlying that assessment.

The FRC's upcoming monitoring of annual reports will focus on disclosures addressing risk, judgement and uncertainty in the face of the ongoing impact of Covid-19; the UK's exit from the European Union and climate-related risks.



## **Institute of Chartered Accountants in England and Wales**

1. There have been no significant developments related to audit and assurance to report in the period.

## **The Charity Commission**





1. There have been no significant developments related to audit and assurance to report in the period.

## **Association of Chartered Certified Accountants (ACCA)**

1. [This report](#) identifies barriers and opportunities for mainstreaming businesses' positive social and environmental impact through engaging finance teams and professional accountants. It describes the challenges that have been heightened by Covid-19 and how they have made mainstreaming such impact even more important, while also outlining the steps taken to systematise positive impacts by business. It identifies the areas where professional accountants can make a difference through addressing particular social and environmental issues and the areas where they are eager to expand their skills and knowledge.

# United States of America

## **Public Company Accounting Oversight Board (PCAOB)**

1. In November 2020, the Public Company Accounting Oversight Board (PCAOB) adopted amendments to its [independence standards](#). The amendments align the Board's independence requirements with the U.S. Securities and Exchange Commission's (SEC) recent revisions to its auditor independence rules.
2. The PCAOB has released an [interim analysis report](#)  and two accompanying white papers analyzing the initial impact of the CAM requirements. The PCAOB has also made available the [CAMs dataset](#) used in its analysis. The interim analysis report and white papers are part of an ongoing evaluation of the overall effect of the CAM requirements on key stakeholders in the audit process. Staff of the PCAOB's [Office of Economic and Risk Analysis](#) conducted extensive [stakeholder outreach](#)  and performed [large-sample statistical analysis](#)  to provide an initial understanding of:
  - Audit firm and audit engagement team responses to the CAM requirements.
  - Investor use of CAM communications.
  - Audit committee and preparer experiences related to CAM implementation.Key findings from the staff's analyses include the following:
  - Audit firms made significant investments to support initial implementation of the CAM requirements.
  - Investor awareness of CAMs communicated in the auditor's report is still developing, but some investors are reading CAMs and find the information beneficial.
  - The staff has not found evidence of significant unintended consequences from auditors' implementation of the CAM requirements for audits of large accelerated filers in the initial year.[Further information](#) on implementation of the CAM requirements is available in the Standards section of this website.
3. [PCAOB Issues Staff Update and Preview of 2019 Inspection Observations](#) 

## **American Institute of Certified Public Accountants (AICPA)**

1. How auditors assess and respond to risks of material misstatement in the financial statements, including the risk of fraud, is a critical component of audit quality. New research supported by the [AICPA's Assurance Research Advisory Group](#) provides analysis about auditor risk assessment and response processes based on engagement teams' real-world experiences with their clients. (read more [here](#))
2. Data suggests that auditors need to devote more attention to assessing the risk of material misstatement and designing appropriate procedures. Even so, the findings of the 2016 AICPA Peer Review Program suggest that more than 10% of auditors are falling short of meeting the risk assessment standards (AICPA Peer Review Board, *Supplemental Guidance of the AICPA Standards for Performing and Reporting on Peer Reviews*, April 2019; "[Taking the Risk Out of Risk Assessment](#)," *JofA*, Aug. 2018).

## **Center for Audit Quality (CAQ) - (affiliated with AICPA)**

1. In October 2020, CAQ released a new report revealing how the auditor's role can evolve beyond public company financial statements to enhance the reliability of company-prepared cybersecurity disclosures. Auditor involvement can better meet the changing needs of investors, senior management, boards of directors, and other stakeholders, especially in a heightened risk-environment caused by COVID-19.

The report, [The Role of Auditors in Company-Prepared Cybersecurity Information: Present and Future](#), provides an overview of the types of company-prepared information stakeholders and companies are using to disclose cybersecurity risks, the current role auditors play in assessing those risks, and how that role could evolve by providing advisory or attestation services on company-prepared cybersecurity information.

2. New data shows that public companies continue to increase the level of audit committee disclosures in proxy statements but lag behind in a few key areas, according to a report issued jointly by the Center for Audit Quality (CAQ) and Audit Analytics. This report comes as investors increasingly seek information to evaluate a company's management and the board of directors in a time of uncertainty caused by COVID-19.

Now in its seventh year, the data-rich [2020 Audit Committee Transparency Barometer](#) found the biggest increase in audit committee disclosures came from cybersecurity. Disclosures related to the audit committee's responsible for cybersecurity risk oversight increased nearly four-fold in five years, from 11% of S&P 500 companies in 2016 to 39% of S&P 500 companies in 2020.

## **Other US news**

A perennially contentious issue, [auditor rotation](#) has led regulators in both the United States and Europe to require public companies to change auditors periodically—in the European Union by requiring firms to invite bids from other audit firms after ten years and in the U.S. by mandating rotation after five years of the engagement partner overseeing audits of a corporate client (but not demanding rotation of the partner's audit firm itself).

With the U.S. mandate dating from the Sarbanes-Oxley act of 2002 (SOX) and the E.U. requirement adopted twelve years later, a lingering question has been whether the U.S. will follow suit by broadening its statute to require periodic audit-firm rotation, a step that would likely provoke strong opposition from the accounting industry.

Some new research that probes the two reasons most frequently advanced for mandating auditor rotations: 1) that personal ties developed over time between auditors and clients can compromise the accountants' professional independence and, thus, the quality of financial reporting; and 2) that mandating rotations brings fresh looks to audits which likely enhance the quality of reporting. Studies in two peer-reviewed journals of the American Accounting Association, *Auditing: A Journal of Practice and Theory* and *The Accounting Review*, find no significant fall-off in reporting quality over the course of partners' five-year tenures, as limited by SOX, and little or no evidence

that the fresh looks mandated by SOX make for improved audits. Some evidence even emerges in the *AJPT* study of audit-quality decline with a new engagement partner at the helm, perhaps reflecting a fall-off in knowledge about the client.

## Canada

### **Canadian Auditing and Assurance Standards Board (AASB)**

1. The AASB received a presentation from the International Auditing and Assurance Standards Board's (IAASB) Chair, Tom Seidenstein, and its Technical Director, Willie Botha. Their presentation was about the IAASB's work to address issues identified by respondents to the [IAASB's Discussion Paper, "Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs."](#) The Board also discussed Canadian actions the AASB may consider taking to ensure the CASs are fit for purpose in an audit of the less-complex elements of an entity's operations and financial statements.

### **CPA Canada**

1. There have been no significant developments related to audit and assurance to report in the period.

Project	Overview of the project and its current status
<p data-bbox="204 291 434 320"><b>Quality Control</b></p> <p data-bbox="204 349 434 416"><b>No Update for the period</b></p>	<p data-bbox="459 291 1388 600"><b>Objective of the Project:</b> Initial activities in scoping the project will focus on whether there is a need to revisit specific aspects of the quality control standards to enhance clarity and consistency of their application. This may include restructuring ISQC 1, additional requirements or guidance within the standard or additional guidance in support of the standard. Specific aspects within ISQC 1 and ISA 220 being explored include, governance, engagement partner responsibilities, engagement quality control reviews, monitoring, remediation, alternative audit delivery models and specific issues pertaining to small- and medium-sized practices</p> <p data-bbox="459 633 1388 837"><b>Background and current status:</b> The proposed changes to QC were included in the IAASB Audit Quality ITC. The ITC response period is closed now. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, and developed <a href="#">project proposals for quality control</a> that were presented at the September 2016 IAASB meeting.</p> <p data-bbox="459 871 1388 938">The IAASB considered the Quality Control Other Working Group's (QCOWG) <a href="#">proposals</a> in respect of:</p> <ul data-bbox="459 972 1388 1106" style="list-style-type: none"> <li>• Setting the objective of an engagement quality control (EQC) Revising the definition of an EQC review;</li> <li>• Determining the scope of the engagements subject to an EQC review; and</li> <li>• The execution of an EQC review.</li> </ul> <p data-bbox="459 1140 1388 1207">At its March 2017 meeting, the IAASB discussed matters to do with the <a href="#">eligibility</a> of the engagement quality control reviewer.</p> <p data-bbox="459 1240 651 1270"><b>QC-Firm Level</b></p> <p data-bbox="459 1303 1388 1644">In June 2017 the Board discussed the Quality Control Task Force's (QCTF) recommendations on the possible revisions to ISQC 1, a result of incorporating a quality management approach (QMA) into ISQC 1, that included a discussion of a working draft of ISQC 1 (Revised) and how the proposals are expected to change firm behaviors. The Board was supportive of the overall direction proposed by the QCTF and emphasized the importance of outreach with a variety of stakeholders to seek input on the practicality of the proposals. The Board also encouraged the QCTF to develop guidance and examples to accompany the revised standard in order to explain the implementation and application of the standard.</p> <p data-bbox="459 1677 1388 1845">In its September 2017, the Board discussed the Quality Control Task Force's (QCTF) recommendations on the possible revisions to ISQC1 in relation to documentation of the system of quality management. The Board was supportive of the QCTF's proposals and suggested various refinements. Some of the key proposals were as follow:</p> <ul data-bbox="459 1879 1388 1980" style="list-style-type: none"> <li>• the proposal to retain the requirement for an EQC review for all audits of financial statements of listed entities, i.e., not only for general purpose financial statements</li> </ul>

- the proposals in relation to other engagements for which the firm determines that an EQC review is required (see here for details)
- the objective of ISQC 2, including whether it is appropriate to locate the responsibilities of the EQC reviewer in ISQC 2, instead of ISA 220
- the IAASB supports the proposal to remove the reference to “team” from the definition of an EQC reviewer, and instead explain the use of a team in the application material supporting the appointment of the EQC reviewer
- the proposed requirements and application material in relation to the eligibility of the EQC reviewer.

The Board also discussed the QCTF’s recommendations in relation to EQC reviews that would be incorporated in ISQC 1 and the proposed new standard, ISQC2. The Board confirmed that the purpose of the EQC review is to evaluate the significant judgments made by the engagement team. In addition to various recommendations to further enhance and clarify the various requirements and application material, the Board encouraged the QCTF to improve the robustness of the requirement relating to the scope of the engagements subject to EQC review.

In December 2017, the Board discussed a first read of the proposed exposure draft of ISQC 1 (Revised) 5 and was broadly supportive of the direction of the standard. The Board focused on the scalability of the standard, clarifying the interrelationship of the components, and the appropriate placement of the governance and leadership component. As well as requesting the Task Force to clarify the meaning of deficiencies and major deficiencies, the Board asked that a framework be developed for assessing deficiencies in the system of quality management and requested clarification of how such deficiencies may impact the achievement of the overall objective of the standard. The Board also asked the Task Force to reconsider the threshold for the identification of quality risks and encouraged the Task Force to explore the development of appropriate guidance to accompany the proposed exposure draft that addresses the application of the standard to a spectrum of firms.

The Board discussed the exposure draft (ED) of proposed ISQC 1 (Revised)1 and was supportive of the direction that the Quality Control Task Force was taking the standard, noting the improvement in the readability and understandability overall. The Board encouraged the Quality Control Task Force to consider whether there are further opportunities to address scalability, including further refinement and simplification of the standard, where possible. The Board also discussed changing the title of the standard

In finalizing the ED in December 2018, the Board discussed the definition of deficiencies and bringing more emphasis to positive findings from the firm’s monitoring activities and how they may be used in the system of quality management. The Board also discussed the requirement for the firm to establish additional quality objectives beyond those required by the standard and further clarifying the identification and assessment of quality risks. In addition, the Board suggested further simplification of the requirement addressing communication with external parties, although in general agreed to retain an explicit reference to transparency reports in the requirement. The Board also discussed network requirements or network services, and

adjusted the requirement to clearly reflect the expectations of the firm regarding the effect of network requirements or network services on the firm's system of quality management.

The Board supported the Quality Control Task Force's recommendations regarding matters to be addressed in the Explanatory Memorandum, including the proposed questions.

In September 2019, the Board discussed the comment letters received on certain areas of the Exposure Draft (ED) of ISQM 1 (ED-ISQM 1)3 relating to the quality management approach, implementation challenges, the components and structure of the standard and the firm's risk assessment process. The Board concurred that four significant themes had emerged from the comments: scalability; prescriptiveness; addressing firms who do not perform audit or assurance engagements; and challenges with implementation. The Board, in general, supported proposals to address the structure of the standard and clarify the nature of the components and how they interrelate. The Board also supported addressing the granularity of the quality objectives, introducing quality risk considerations, and refining the required responses. The Board agreed with the ISQM 1 Task Force's proposals to simplify the firm's risk assessment process, including addressing concerns about the threshold for the identification of quality risks. The Board did not support the proposal to develop a separate standard for quality management for related services engagements and encouraged exploration of other ways to address scalability concerns. The ISQM 1 Task Force will take these comments into account in preparing revised drafting and issues for discussion at the December 2019 IAASB meeting.

In December 2019, the Board continued to discuss the key issues highlighted by respondents to the Exposure Draft (ED) of ISQM 13 (ED-ISQM 1) including the scalability, complexity and prescriptiveness of the standard. appropriate tailoring of the system of quality management for their circumstances and the making sure the standard that can be applied in all circumstances.

The Board supported the changes to the structure of the standard, adjusting the quality objectives and responses in the components to be more streamlined and the revisions to the drafting and presentation of the standard to simplify and improve the readability of the standard. The Board also agreed with proposed revisions to the firm's risk assessment process, including introducing factors to consider in identifying and assessing quality risks.

The Board supported the ISQM 1 Task Force's proposals to embed a risk-based approach in the monitoring and remediation component, improve the selection of engagements for inspection such that it is more risk-based, and further clarify the framework for evaluating findings and identifying deficiencies.

In its March 2020 meeting, the IAASB discussed a full draft of proposed ISQM 1. The IAASB particularly focused on the identification and assessment of quality risks, external communications, findings and deficiencies, the inspection of completed engagements, service providers, and the annual

evaluation of the system of quality management. The IAASB also discussed the meaning of the effective date of proposed ISQM 1.

The IAASB broadly supported the proposals and encouraged the ISQM 1 Task Force to further simplify the identification and assessment of quality risks, clarify the definition of deficiencies, and enhance the standard to encourage communication externally. With respect to the evaluation of the system of quality management, the IAASB also suggested adopting a less binary conclusion about the system of quality management to encourage a positive approach to evaluating the system.

The ISQM 1 Task Force will present certain sections of proposed ISQM 1 to the IAASB via videoconference on April 8, 2020.

The Board discussed revisions to a number of areas of proposed ISQM 1,1 including how the standard addresses public interest, the firm's risk assessment process, the definitions of deficiencies and findings and key aspects of monitoring and remediation, information and communication, service providers, relevant ethical requirements and the evaluation of the system of quality management. The Board in general supported the proposals. The Board encouraged the ISQM 1 Task Force to continue developing the definitions of deficiencies and quality risks, and also requested the Task Force to clarify certain requirements related to the firm's risk assessment process. n supporting the proposals to address external communications, the Board suggested that the requirement focus on the firm's determination of when it is appropriate to communicate with external parties.

In June 2020, the Board discussed revisions to certain areas of proposed ISQM 1,1 including the firm's risk assessment process, resources, relevant ethical requirements, monitoring and remediation, and the evaluation of the system of quality management. The Board also discussed external communications, in particular the firm's communication with those charged with governance when performing an audit of financial statements of a listed entity. The Board supported the proposals, and encouraged the ISQM 1 Task Force to further simplify the approach to human resources, in particular the application material explaining the firm and engagement team responsibilities in addressing the competence and capabilities of individuals assigned to the engagement team. The Board also provided varying comments on external communications, although was generally supportive of the direction proposed by the ISQM 1 Task Force. The ISQM 1 Task Force will present a full draft of proposed ISQM 1 for IAASB approval via videoconference in September 2020.

In September 2020, the Board approved ISQM 11 as a final standard. Firms will be required to design and implement systems of quality management in compliance with ISQM 1 by December 15, 2022. Once the Public Interest Oversight Board's (PIOB) confirmation that due process was followed is received, the Board will formally release the standard. In finalizing ISQM 1, the Board considered how to enhance the focus on the public interest and consistent performance of quality engagements in the context of the objective of the standard, and discussed clarifications relating to human resources and

external communications. The Board also suggested a number of areas that should be emphasized in the basis for conclusions.

### **Quality Control – Engagement Level**

In December 2017, The IAASB supported the direction of the proposed changes to ISA 220.4 In particular, the Board supported the proposed changes that emphasize that the engagement partner is responsible and accountable for audit quality. The Board encouraged the ISA 220 Task Force to consider, as it progresses revisions to ISA 220, how the proposed changes will strengthen the performance of quality audits.

The Board discussed a draft ED of proposed ISA 220 (Revised)<sup>2</sup> and was supportive of the proposed changes. The discussions focused on whether changes were needed to the objective of the standard and the wording of the requirement regarding the engagement partner being “sufficiently and appropriately involved.” The Task Force plans on presenting the ED of proposed ISA 220 (Revised) for approval by the Board at the December 2018 meeting.

In December 2018 the Board supported the requirement for the firm to establish policies or procedures addressing limitations on the engagement partner moving into the role of engagement quality reviewer, including the reference to a cooling-off period in the application material. The Board agreed that stakeholder views were needed relating to the objectivity of the engagement quality reviewer and a cooling-off period and supported the ISQM 2 Task Force’s recommendation for including specific questions in the Explanatory Memorandum on this matter to be developed in coordination with the IESBA. The Board also clarified the requirement for notifications by the engagement quality reviewer to the engagement partner and, when applicable, individual(s) within the firm, as well as the documentation requirements.

The Board discussed the requirements that address firm policies or procedures, the role of the engagement partner vis-à-vis other members of the engagement team and the difference between the usages of the phrases “the auditor shall determine” and “the auditor shall be satisfied.” The board also discussed how best to clarify the requirement addressing communications from the firm about the firm’s monitoring and remediation process.

In September 2019, the Board discussed the comment letters received to ED-ISA 2205 and the ISA 220 Task Force’s proposals for addressing the key issues respondents raised. The Board supported the fundamental principle that the engagement partner has overall responsibility for managing and achieving quality and being sufficiently and appropriately involved in the engagement. The Board also supported clarifying the requirement addressing circumstances when the engagement partner assigns procedures or tasks to other engagement team members, the principles underpinning the proposed engagement team definition and proposals to address scalability of the requirements to audits of larger or more complex entities. The ISA 220 Task Force will take these comments into account in preparing revised drafting and issues for discussion at the December 2019 IAASB meeting.



	<p>The Board generally supported the ISA 2205 Task Force’s proposals to clarify the engagement team definition, to make clear that the engagement team can ordinarily depend on the firm’s system of quality management, and to better deal with large, complex audit engagements. The Board also discussed professional skepticism, the stand-back provision and the documentation requirements. The ISA 220 Task Force will consider the comments received in preparing a revised full draft of proposed ISA 2202 for discussion at the March 2020 IAASB meeting.</p> <p>In March 2020 The Board discussed clarifications to distinguish requirements that are the sole responsibility of the engagement partner and those the engagement partner is permitted to assign to another engagement team member and the meaning of “resources made available by the firm” in the case of engagement team members who are external to the firm, among other matters.</p> <p>In June 2020, the Board discussed amendments to proposed ISA 220 (Revised)<sup>4</sup> to clarify how to treat component auditors that are not directly engaged by the firm. The ISA 220 Task Force will present a full draft of proposed ISA 220 (Revised) for IAASB approval via videoconference in September 2020</p> <p>In September 2020, the Board approved ISA 220 (Revised), which will be effective for audits of financial statements for periods beginning on or after December 15, 2022. Once the Public Interest Oversight Board’s confirmation that due process was followed is received, the Board will formally release the standard. In finalizing the standard, the Board focused on clarifying the engagement partner’s responsibilities, the scalability of the standard, and the linkages with ISQM 1.</p>
<p><b>Group Audits– ISA 600</b></p> <p><b>No Update for the period</b></p>	<p><b>Objective of the project:</b> Determining the nature of the IAASB’s response to issues that have been identified, relating to Group Audits, from the ISA Implementation Monitoring project and outreach activities, inspection reports from audit regulators, discussion with NSS and responses to the IAASB’s Work Plan consultation (i.e., whether standard-setting activities are appropriate to address the issues, and if so, whether specific enhancements within ISA 600 or a more holistic approach to the standard would be more appropriate).</p> <p><b>Background and current status:</b> The IAASB commenced work on one aspect of this project relating to the responsibilities of the engagement partner in circumstances where the engagement partner is not located where the majority of the audit work is performed in December 2014. A Staff Audit Practice Alert on this aspect was published in August 2015. Information gathering on the broader aspects of group audits commenced in March 2015.</p> <p>The issues identified and discussed at the IAASB meetings form part of a combined Invitation to Comment on Enhancing Audit Quality in the public interest which was issued in December 2015 and is open for comments till May 16, 2016. The ITC is now closed. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, <a href="#">presented the results</a> to IAASB at the September 2016 IAASB meeting.</p>

In its June 2017 meeting, the IAASB received an update on the activities of the GATF. The IAASB supported the proposal of the GATF to engage more directly with the QCTF, ISA 220 TF and ISA 315 (Revised)<sup>3</sup> TF, to help ensure that the requirements in those standards provide appropriate connection points between those projects and ISA 600.<sup>4</sup> The IAASB also supported the proposal of the GATF to publish a short project update and asked the GATF to consider topics that are related to standards not under revision, for example, materiality and audit evidence.

In December 2017, the Board received a presentation about the interconnections between ISA 600 and other ongoing projects, and how the Task Force is monitoring the activities of the other task forces, providing input and considering implications of changes in the other standards on ISA 600.

In March 2019, the Board was updated on the work performed by the Group Audit Task Force since the start of the project to revise ISA 600<sup>1</sup> and was asked for its views on issues related to scoping a group audit, the definitions, and the linkages with other ISAs. The Board continued to support developing a risk-based approach for scoping a group audit and generally supported the Group Audit Task Force's approach on the definitions and the issues that were presented in relation to the responsibilities of the group engagement partner, acceptance and continuance, understanding the group and its components, understanding the component auditor, identifying and assessing the risks of material misstatement and responding to assessed risks, the consolidation process, communication between the group auditor and component auditors, and evaluating the audit evidence obtained. These and other issues need to be further developed in the context of the risk-based approach and changes made to other of the IAASB's International Standards. The Group Audit Task Force will continue to work on the issues related to scoping a group audit, the definitions and other issues identified in the [Invitation to Comment](#), and will present it for further discussion at the June 2019 IAASB meeting.

In June 2019, the Board was updated on the ISA 600<sup>3</sup> Task Force's progress since the March 2019 meeting and discussed the public interest issues that the ISA 600 Task Force identified, the ISA 600 Task Force's proposals with respect to the risk-based approach to scoping a group audit, and the special considerations related to auditing a group. The Board also discussed indicative drafting related to the risk-based approach to scoping a group audit and the special considerations related to proposed ISA 220 (Revised).<sup>4</sup> Generally, the Board was supportive of the approach taken but had suggestions on the way forward and the indicative drafting. The ISA 600 Task Force will take these comments into account and will present further drafting at the September 2019 meeting. The ISA 600 Task Force will also continue its outreach to key stakeholders and coordinate with IESBA and other IAASB Task Forces as needed.

In September 2019, the Board was updated on the work of the ISA 600 Task Force since the June 2019 meeting, including the outreach performed and

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<sup>1</sup> International Standard on Auditing (ISA) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

	<p>the feedback received from the IAASB's Consultative Advisory Group. The Board discussed, among other matters, the updated public interest issues, a draft of a significant part of the standard and the ISA 600 Task Force's proposals with respect to the scope and structure of the standard, materiality considerations in a group audit and a proposed stand-back requirement. The ISA 600 Task Force will take these comments into account in preparing revised drafting and issues for discussion at the December 2019 IAASB meeting.</p> <p>In December 2019, the Board was updated on the work of the ISA 600 Task Force since the September 2019 meeting, including the outreach performed, and discussed a full draft of the proposed revised standard (except the appendices). The draft of proposed ISA 600 (Revised)<sup>1</sup> included updated requirements and application material on sections that were presented to the Board in September 2019 and new requirements and application material on, among other matters, materiality, communications with component auditors and documentation.</p> <p>The ISA 600 Task Force will take the Board's comments on the proposed revised standard into account and will present an updated version for approval for public exposure at its March 2020 meeting. The Task Force will discuss the conforming amendments and the appendices to proposed ISA 600 (Revised) in the January 23, 2020 Board teleconference.</p> <p>In March 2020, after making amendments in response to the IAASB's comments received during the meeting, the IAASB approved the Exposure Draft (ED) of proposed ISA 600 (Revised)<sup>1</sup> and related conforming and consequential amendments for public exposure with 18 affirmative votes out of the 18 IAASB members present. The ED will be issued in mid-April with a comment period of 120 days.</p> <p>In finalizing the ED, the IAASB continued to discuss whether it is sufficiently clear how the standard described the involvement of component auditors. On balance, the IAASB was satisfied that the draft sets out acceptable proposals on all significant areas for this project and that it is appropriate to proceed to seek stakeholder views whether the proposals could be effectively implemented.</p> <p>The IAASB also discussed possible matters to be addressed in the explanatory memorandum that will accompany the ED.</p>
<p><b>Professional Scepticism</b></p> <p><b>No Update for the period</b></p>	<p><b>Objective of the project:</b> To make recommendations on how to more effectively respond to issues related to professional scepticism.</p> <p><b>Background and current status:</b> The IAASB commenced its initial information gathering on the topic of professional scepticism in June 2015. The issues identified and discussed at the IAASB meetings are part of the Invitation to Comment on Enhancing Audit Quality in the Public Interest which was issued in December 2015 and is open for comments till May 16, 2016.</p> <p>The working group is comprised of representatives from the IAASB, the International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB) to explore the topic of professional scepticism, enabling the three independent standard-</p>

	<p>setting Boards to consider what actions may be appropriate within their collective Standards and other potential outputs to enhance professional scepticism.</p> <p>Together with the Quality Control and ISA 600-Group Audits project, this project is part of the Audit Quality Enhancements Coordination Group (AQECG). The AQECG intends to coordinate the various inputs to the invitation to comment developed at the individual working group level, and take a holistic approach as to how the matters are presented in one invitation to comment. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, <a href="#">presented the results</a> to IAASB at the September 2016 IAASB meeting.</p> <p>Subsequent to the December 2016 IAASB meeting, the joint PSWG held a teleconference to discuss matters related to potential changes to the concept/definition of professional scepticism in the ISAs. The March meeting papers are available <a href="#">here</a>.</p> <p>In June 2017 meeting, the IAASB received an update on the activities of the Professional Skepticism Working Group (PSWG) and the Professional Skepticism IAASB Subgroup since the last Board meeting in March 2017. The Board supported the release of a communication to update stakeholders about the actions and current status of the PSWG’s work. The Board also discussed the concept of “levels” of professional skepticism and supported the recommendations of the Professional Skepticism IAASB Subgroup not to introduce the concept into the ISAs.</p> <p>The IAASB discussed the Professional Skepticism Subgroup’s analysis and related conclusions regarding different “mindset” concepts of professional skepticism and the use of the words in the ISAs in its December 2017. The Board supported the conclusions of the Subgroup, including that the current concept of the attitude of professional skepticism involving a “questioning mind” continues to be appropriate and should be retained within the ISAs. The IAASB Professional Skepticism Subgroup will liaise as needed with the Professional Skepticism Joint Working Group.</p> <p>In September 2018 meeting, The Board received an update on the activities of the IAASB’s Professional Skepticism Subgroup (Subgroup) since March 2018. The Chair of the Subgroup also presented the Board with a draft publication that seeks to highlight the IAASB’s efforts to appropriately reflect professional scepticism into the IAASB standards as well as other relevant news and information on professional skepticism, including collaboration with the International Ethics Standards Board for Accountants (IESBA) and International Accounting Education Standards Board (IAESB). The Board supported the issuance of the publication and future publications of this nature.</p>
<p><b>Data Analytics</b></p> <p><b>No Update for the period</b></p>	<p><b>Objective of the project:</b> The objective of the Data Analytics Working Group (WG) is to:</p> <p>A) Explore emerging developments in audit data analytics; and</p>

	<p>B) Explore how the IAASB most effectively can respond via International Standards or non-authoritative guidance (including Staff publications) and in what timeframe.</p> <p><b>Background and current status:</b> Information gathering on data analytics began in April 2015 and the Data Analytics Working Group will continue with its planned outreach activities in future. The DWAG published its first publication “The IAASB’s Work to Explore the Growing Use of Technology in the Audit” in June 2016.</p> <p>At the March meeting, the IAASB received a video presentation of a panel discussion among members of the DAWG that was presented at the International Forum of Independent Audit Regulators Inspections Workshop.</p> <p>The Chair of the DAWG provides an <a href="#">update</a> on the project in February 2017 on the IFAC website.</p> <p>In its June 2017 meeting, the IAASB received a presentation of high-level observations from respondents to the IAASB’s Request for Input: Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics. It was noted that respondents supported the IAASB in undertaking this work and encouraged continued active participation of the Data Analytics Working Group in other current standard-setting projects of the IAASB underway.</p>
<p><b>Emerging External Reporting</b></p> <p><b>No Update for the period</b></p>	<p><b>Objective of the project:</b> The objective of the Integrated Reporting Working Group (IRWG) is to:</p> <p>A) Explore emerging developments in integrated reporting and other emerging developments in external reporting;</p> <p>B) Gather further information on the demand for assurance, the scope of the assurance engagement and the key assurance issues; and</p> <p>C) Explore how the IAASB most effectively can respond via International Standards or non-authoritative guidance (including Staff publications) and in what timeframe.</p> <p><b>Background and current status:</b> At its September 2014 meeting the Innovation WG proposed, and the IAASB agreed to establish a WG to specifically monitor the developing interest in integrated reporting and the demand for assurance on integrated reports. This includes initial thinking on the nature of such engagements, including the scope of the assurance engagement, the suitability of the criteria, and other matters related to assurance on integrated reports. The Board considered the draft working paper prepared by the IRWG <a href="#">Supporting Credibility and Trust in Emerging Forms of External Reporting</a> in its June 2016.</p> <p>The Discussion Paper was issued in August 2016.</p> <p>In its June 2017 meeting, the IAASB received a presentation about the high-level observations from the comment letters received to the Discussion Paper, Supporting Credibility and Trust in Emerging Forms of External Reporting. It was noted that respondents generally supported the development of guidance on how to apply existing international assurance standards rather than developing new standards, and that the IAASB should continue to provide</p>

thought leadership on assurance issues and coordinate its work with other relevant organizations.

The Board received an update on the project in December 2017. It was noted that the grant agreement with the World Business Council for Sustainable Development (WBCSD) was finalized for the funding of the project and that the Project Proposal and Feedback Statement has been finalized to be published on the IAASB's website. The board also received an update on the plan for developing the framework for the non-authoritative guidance for EER during the next year, including the required research to be gathered and the establishment of a Project Advisory Panel (PAP).

In its September 2018 meeting, the EER Task Force presented the remaining Phase 1 'issues' that were not presented in June alongside a first draft of the Phase 1 guidance. The Board noted the need for the guidance to demonstrate its full alignment with the requirements of ISAE 3000 (Revised), 5 and for the EER Task Force to provide further explanations about any guidance that goes beyond the requirements and application material in ISAE 3000 (Revised). The EER Task Force expects to receive further input from stakeholders during its forthcoming series of discussion events and will present a revised draft of the guidance to the IAASB in December 2018.

In December 2018 The EER Task Force presented an updated version of the Phase 1 draft guidance, which reflects changes to address feedback received from the IAASB at the September 2018 IAASB meeting, and from other stakeholders, including in relation to a 'materiality process' and assertions as they relate to the characteristics of suitable criteria. The Board noted that the draft guidance had significantly improved since discussions at the September 2018 meeting, but that further work on the drafting is enquired. The Board will discuss a further version on a teleconference in January 2019 before the draft guidance is published for public comment.

In March 2019, the Board approved for public comment Phase 1 of the draft guidance in January 2019. At its March 2019 meeting, the Board discussed several challenges related to Phase 2 of the guidance. The challenges include: determining the scope of an EER assurance engagement; communicating effectively in the assurance report; exercising professional skepticism and professional judgment; obtaining the competence necessary to perform the engagement; and obtaining evidence in respect of narrative and future-oriented information. The Board's deliberations of the challenges concerned were facilitated through breakout sessions, after which each breakout group reported back to the Board in a plenary session. The EER Task Force will consider the inputs that were received in progressing the development of Phase 2 of the guidance for further discussion at the June 2019 IAASB meeting.

In June 2019, the Board was updated on the work of the EER Task Force on the challenges allocated to Phase 2 of the project. These challenges include: determining the scope of an EER assurance engagement; obtaining evidence in respect of narrative and future-oriented information; exercising professional skepticism and professional judgment; obtaining the competence necessary to perform the engagement; and communicating effectively in the assurance

	<p>report. The Board discussed views on the EER Task Force's initial proposals to address each of these challenges in the Phase 2 guidance. The EER Task Force will consider the inputs received from the Board, together with responses to the Phase 1 EER Consultation Paper in so far as they impact the Phase 2 guidance, in developing the draft Phase 2 guidance, which will be presented for discussion at the September 2019 IAASB meeting.</p> <p>In September 2019, the Board received an overview of the comment letters received on the EER Assurance Consultation Paper. The Board discussed respondents' comments on the Consultation Paper, that included the draft Phase 1 guidance, and the EER Task Force's proposals for addressing the comments. The Board also discussed the initial drafting of the Phase 2 guidance developed to date by the EER Task Force. A revised draft of the combined Phase 1 and Phase 2 guidance will be presented to the Board, for approval of an exposure draft at the December 2019 IAASB meeting.</p> <p>In December 2019, the Board approved the combined restructured and redrafted non-authoritative EER Guidance, Special Considerations in Performing Assurance Engagements on Extended External Reporting, for public consultation. The consultation period will be 120 days from the date of publication. In finalizing the draft Guidance for public consultation, the Board agreed to emphasize that the guidance is non-authoritative and is not required to be read in its entirety, but is a useful reference source in applying particular requirements of the Standard. The Board also clarified the possible approaches to the use of framework criteria and entity-developed criteria and included additional guidance on fraud and on misstatements that might affect the practitioner's assessment of the control environment.</p> <p>In September 2020, The Board received an overview of the comment letters received on the March 2020 EER Assurance <a href="#">Consultation Paper</a>. The Board discussed respondents' comments on the Consultation Paper and the EER Task Force's proposals for addressing the comments. A revised draft of the Non-Authoritative – EER Assurance will be presented to the Board at the December 2020 IAASB meeting, with a view to finalization in March 2021.</p>
<p><b>Agreed-Upon Procedures</b></p> <p><b>No Update for the period</b></p>	<p><b>The objective of the project is to:</b></p> <p>A) Revise International Standard on Related Services (ISRS) 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information in the Clarity format; and</p> <p>B) Consider whether standard-setting or other activities may be appropriate for engagements that use a combination of procedures derived from review, compilation and agreed-upon procedures engagements (also known as "hybrid engagements"), in light of the existing standards that may be applicable to these services in the IAASB's current suite of standards.</p> <p><b>Background and current status:</b> During consultations on the IAASB's 2015-2019 Strategy and the related 2015-2016 Work Plan, many stakeholders expressed the need to revise ISRS 4400 to meet the growing demand for agreed-upon procedure engagements. In response to the stakeholders'</p>



comments, the IAASB established a working group to explore issues involving agreed-upon procedure engagements. The issues identified and discussed at the IAASB meetings will be used to revise ISRS 4400 and possibly develop new standard(s) or guidance that would address engagements where there is a combination of agreed-upon procedures and assurance.

The Agreed-Upon Procedures (AUP) Working Group presented a first draft of its Discussion Paper, [\*Exploring the Growing Demand for Agreed-Upon Procedures Engagements and Other Services and the Implications for the IAASB's Standards\*](#), to the Board in June 2016. The IAASB provided the AUP Working Group with input to enhance the Discussion Paper and suggested that the paper pose a question to explore whether the IAASB should develop guidance on multi-scope engagements. The AUP Working Group will present a revised draft of the Discussion Paper at the September 2016 IAASB meeting.

In its September 2017 meeting, the Board discussed the feedback received on the Discussion Paper and **approved** a standard-setting project proposal to revise ISRS 4400, subject to clarifications around the use of judgment, independence, restriction of the report of factual findings and required documentation.

In its September 2018 meeting, The Board approved the ED of ISRS 4400 (Revised)<sup>3</sup> for public exposure. In finalizing the ED, the Board agreed that independence is not required for an AUP engagement and that the AUP report would include statements addressing circumstances when the practitioner is (or is not) required to be independent, and whether the practitioner is (or is not) independent. The ED will be issued in early November with a 120 day comment period.

In June 2019 the Board received an overview of the responses to proposed ISRS 4400 (Revised)<sup>2</sup> (ED-4400). The Board discussed, among other matters, respondents' comments on the application of professional judgment when performing procedures, the independence disclosure requirements, and the effective date.

The Board also acknowledged areas of broad support, including not including a precondition for the practitioner to be independent, using the term "findings" and requiring an explanation of this term in the engagement letter and the AUP report, not requiring or prohibiting a reference to the practitioner's expert in the AUP report, and not requiring a restriction on use or distribution of the AUP report. The AUP Task Force will deliberate the Board's input and will present the first read of the post-exposure ISRS 4400 (Revised) to the Board in the second half of 2019.

The Board approved ISRS 4400 (Revised)<sup>2</sup> with 17 Board members voting for approval and one vote against. The revised ISRS will be effective for agreed-upon procedures engagements for which the terms of engagement are agreed on or after January 1, 2022. Once the PIOB's confirmation that due process was followed is received, the Board will formally release the standard. In finalizing ISRS 4400 (Revised), the Board carefully deliberated the effective date and continued to focus on issues relating to compliance with independence requirements.



**LCE**

**No Update for the period**

In March 2019 the Board discussed a proposed Discussion Paper (DP), *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Implementing the ISAs*. The discussion highlighted the shift in focus on complexity of the entity rather than its size in driving the ongoing discussions and activities to address issues and challenges in audits of less complex entities (LCEs). The Board was supportive of the DP's overall direction, noting the importance of the project and the need for action by the IAASB and others.

The Board liked the simple, clear way the DP had been presented and noted it was appropriate for its key target audience (i.e., auditors of LCEs). The Board made suggestions for improvements, particularly with respect to the issues and challenges, the possible actions presented within the DP and the questions to be posed to respondents in order to obtain relevant and useful feedback. Proposed changes to the DP will be presented in a Board call on April 10<sup>th</sup>, with the final DP targeted to be published for public consultation before the end of April 2019.

The Board discussed the feedback received to date related to audits of less complex entities, including from the Discussion Paper (DP), *Audits of Less Complex Entities (LCEs): Exploring Possible Options to Address the Challenges in Applying the ISAs*, and other related outreach. The key messages received from the feedback highlighted the strong support for the IAASB's work in this area, as well as the need for a timely and global solution. The Board asked the LCE Working Group to continue to analyze the feedback from stakeholders to help determine the most appropriate way forward, and it was agreed that further information gathering activities would continue until June 2020, at which time it is anticipated that a decision about the way forward will be made. As part of the proposal for work in this area, the IAASB had agreed that it was important to keep stakeholders informed of its progress in relation to its work on audits of LCEs. Accordingly, the Board agreed to publish a Feedback Statement in December 2019 detailing what the IAASB had heard from its consultation and related outreach.

In June 2020, the Board discussed the LCE Working Group's recommendations for developing a separate standard for Audits of Less Complex Entities (LCEs) on the basis of overarching principles outlining how the separate standard could be developed.

Notwithstanding the support for some of the overarching principles outlined, the Board requested the LCE Working Group to further consider how the separate standard could be developed so that it is standalone, while also clarifying the linkage back to the ISAs as appropriate. In doing so, the Board also encouraged further consideration of materials to help apply the separate standard, either within the standard (as application material) or outside as support materials. The Board highlighted the importance of the description of an LCE to help in developing the content of the separate standard. The Board encouraged a more prescriptive definition for the application of the standard, although the Board recognized there would always be a level of judgment in making this determination. On this basis, the Board supported that the LCE Working Group

	<p>commence development of the separate standard as well as prepare a project proposal for approval at the December 2020 IAASB meeting.</p>
<p><b>Audit Evidence</b></p> <p><b>No Update for the period</b></p>	<p>The Board discussed the analysis undertaken by the Audit Evidence Working Group of the issues across the ISAs related to audit evidence and the use of technology more broadly, and the possible actions to address the issues. The Board concurred that guidance should be developed on the effect of technology when applying certain aspects of the ISAs, and that this should be actioned expeditiously.</p> <p>The Board also indicated that more extensive information gathering and research need to be undertaken to understand the issues related to audit evidence, so that the Board is fully informed of the issues in determining the need for revisions to ISA 5005 and possibly other related standards.</p> <p>In September 2019, the Board was provided with an overview of the development of the Audit Evidence Workstream Plan. The Audit Evidence Working Group will accordingly undertake further information gathering and research, and develop recommendations for possible further actions to be presented to the Board in the first half of 2020.</p> <p>In June 2020, the Board discussed the outcome of the Audit Evidence Working Group's information gathering and targeted outreach activities. Based on the feedback, the Board agreed with the Audit Evidence Working Group's conclusion that the listing of audit evidence related issues, as presented, is appropriate. The Board supported the Audit Evidence Working Group's recommendation to develop a project proposal to revise ISA 500,5 including conforming and consequential amendments to other standards, for approval at the December 2020 IAASB meeting, and to continue in the interim to evolve its approach, as presented, to progress the revision of ISA 500 (and conforming and consequential amendments to other standards). The Board also recommended that the Working Group publish a project update to inform stakeholders about the activities undertaken to date.</p>

## Agenda Item 9.2



NZ AUDITING  
AND ASSURANCE  
STANDARDS BOARD

**DATE:** 20 November 2020

**TO:** Members of the New Zealand Auditing and Assurance Standards Board

**FROM:** Peyman Momenan

**SUBJECT:** Domestic Update

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### **Introduction**

1. This Update summarises the significant news from Financial Market Authority, New Zealand Institute of Chartered Accountants and other organisations for the Board's information, for the period September 2020.

### **Financial Markets Authority (FMA)**

1. The Financial Markets Authority (FMA) today released its [Audit Quality Monitoring Report for 2020](#). The annual review, part of a three-year monitoring cycle of all licensed auditors, scrutinises selected audit files for listed companies and other entities that report under the Financial Markets Conduct (FMC) Act.

Audit quality has continued to improve, with the overall number of issues discovered by the FMA reducing over time. However, while the number of individual issues in each file reduced, 35% of files in the sample were rated non-compliant, which is consistent with previous reviews.

2. The Financial Markets Authority (FMA) has released the [final standard conditions](#) for a full Financial Advice Provider licence and confirmed three classes of financial advice service, following an extensive consultation with the industry.

### **The New Zealand Institute of Chartered Accountants**

1. The CAANZ published an article [How coronavirus heightens the risk of fraud?](#)
2. The CAANZ published an article: [Accountants no longer can afford to ignore climate risk](#)
3. Integrated reporting assurance is emerging. Its place in the pathway to the audit of the future is becoming clearer. This [CAANZ publication](#) explores this issue.
4. Tabled in (Australian) Parliament, the recommendations outlined in the final report of the parliamentary inquiry into audit regulation are welcomed by Chartered Accountants Australia and New Zealand. (read more [here](#))

### **CPA Australia**

1. No update for the period.

### **The Institute of Directors (IoD)**

1. No update for the period.

### **Other organisations**

1. In November 2020, the law firm Russell McVeagh released analysis of announcements made by the constituent members of the NZX 20, in its '[Governance challenges amidst the pandemic](#)' report, to provide insight on current practices relating to providing earnings guidance.