

**Exposure Draft
November 2018**

Comments due: March 15, 2019

International Standard on Related Services

**Proposed International Standard
on Related Services 4400
(Revised)**

**Agreed-Upon Procedures
Engagements**

IAASB

**International Auditing
and Assurance
Standards Board**

About the IAASB

This Exposure Draft was developed and approved by the International Auditing and Assurance Standards Board (IAASB).

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

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

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REQUEST FOR COMMENTS

This Exposure Draft, proposed International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*, was developed and approved by the International Auditing and Assurance Standards Board® (IAASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by March 15, 2019.**

Respondents are asked to submit their comments electronically through the IAASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. First-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website.

This publication may be downloaded from the IAASB website: www.iaasb.org. The approved text is published in the English language.

EXPLANATORY MEMORANDUM

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Executive Summary

Agreed-upon procedures (AUP) engagements are widely used in many jurisdictions and the demand for AUP engagements continues to grow, particularly in relation to the need for increased accountability around funding and grants. Extant ISRS 4400¹ was developed over 20 years ago and has not kept pace with the significant changes that have occurred in the business environment driving the demand for AUP engagements on both financial and non-financial subject matters. To explore the issues related to AUP engagements, the IAASB commenced a project in 2015.

In November 2016, a Discussion Paper, *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards* ("Discussion Paper")² was issued to explore the demand for, and issues relating to, AUP engagements. Responses from a wide range of stakeholders and jurisdictions were overwhelmingly supportive of the views and conclusions expressed in the Discussion Paper. In September 2017, the IAASB approved a project proposal³ to revise extant ISRS 4400 to address issues relating to AUP engagements.

This exposure draft of proposed ISRS 4400 (Revised), *Agreed-Upon Procedures Engagements* (ED-4400) is drafted using the clarity drafting convention and enhances key concepts relevant to an AUP engagement, including:

- Professional judgment — new requirement and application material on the role of professional judgment in an AUP engagement.
- Independence — new requirements and application material on disclosures in the AUP report relating to the practitioner's independence (or lack thereof).
- Engagement acceptance and continuance considerations — new requirements and application material addressing conditions for engagement acceptance and continuance, including guidance on what constitutes appropriate (or inappropriate) terminology to describe procedures and findings in AUP reports.
- Use of a practitioner's expert — new requirements and application material to address the use of the work of a practitioner's expert in an AUP engagement, including the practitioner's responsibilities when using the work of an expert and consideration of whether it is appropriate to include references to the expert in an AUP report.
- AUP report restrictions — clarification that the AUP report is not restricted to parties that have agreed to the procedures to be performed unless the practitioner decides to do so, and new application material on the practitioner's considerations if the practitioner wishes to place restrictions on the AUP report.

ED-4400 also addresses non-financial subject matters, and includes new definitions and new requirements and application material on written representations, recommendations arising from the performance of AUP engagements, and documentation, among others.

¹ International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

² <https://www.ifac.org/system/files/publications/files/Agreed-Upon-Procedures-Working-Group-Discussion-Paper-Nov-2016.pdf>

³ <http://www.iaasb.org/system/files/meetings/files/20170918-IAASB-Agenda-Item-5-B-Agreed-Upon-Procedures-Project-Proposal-UPDATED.pdf>

Section 1 Introduction

1. This memorandum provides background to, and an explanation of ED-4400, which was approved for exposure by the IAASB in September 2018.

Section 1-1 – Background

2. A wide range of stakeholders use AUP reports for a variety of reasons and the demand for AUP engagements continues to grow, particularly in relation to the need for increased accountability around funding and grants. In addition, changes in regulation (such as the increase in audit exemption thresholds in many jurisdictions) have also driven increased demand for AUP engagements, especially from smaller entities, as the increased audit exemption thresholds prompt stakeholders to look for alternative services to an audit. For example, banks in some jurisdictions request AUP engagements on receivables and inventory in lieu of audited financial statements of borrowers.
3. Extant ISRS 4400 was developed over 20 years ago and has not kept pace with the significant changes that have occurred in the business environment; for example, increasing requests for AUP engagements on non-financial subject matters. In response to calls from stakeholders, a project to revise this standard was included in the IAASB's 2012–2014 *Strategy and Work Program*.⁴ In addition to enhancing the standard to address issues that had been identified, it was also intended that the revised standard would be redrafted using the clarity drafting conventions. This project was postponed to the 2015–2016 *Work Plan*⁵ because of the acceleration of work on the Auditor Reporting project.
4. In 2015, the IAASB commenced a project to explore issues related to AUP engagements. In November 2016, the IAASB issued the Discussion Paper to explore demand for, and issues relating to, AUP engagements. Extensive outreach with many stakeholders was conducted, including:
 - Users of AUP engagements such as securities regulators and funding agencies;
 - National standard setters in Africa, Asia, Europe and North America;
 - Practitioners who perform AUP engagements, including representatives from large multi-national firms and the IFAC's Small- and Medium-sized Practices Committee; and
 - Other organizations subject to regulatory oversight.
5. 54 responses to the Discussion Paper were received from a wide range of stakeholders and jurisdictions. Significantly, the responses were overwhelmingly supportive of the views and conclusions expressed in the Discussion Paper relating to a revision of extant ISRS 4400. In September 2017, the IAASB approved a project proposal to revise extant ISRS 4400 to address issues relating to AUP engagements as identified in the Discussion Paper and by stakeholders.

⁴ <http://www.ifac.org/system/files/publications/files/IAASB%20Strategy%20and%20Work%20Program%202012-2014-final.pdf>

⁵ <http://www.ifac.org/system/files/publications/files/IAASB-Work-Plan-2015-2016.pdf>

Section 2 Guide for Respondents

The IAASB welcomes comments on all matters addressed in ED-4400, but especially those identified in the Request for Comments section. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and make specific suggestions for any proposed changes to wording. Respondents are free to address only questions relevant to them from the Request for Comments section. When a respondent agrees with proposals in ED-4400 (especially those calling for change in current practice), it will be helpful for the IAASB to be made aware of this view as this cannot always be inferred when not stated.

Section 3 Significant Matters

Section 3A – Public Interest Issues Addressed in ED-4400

6. All the proposed revisions in ED-4400 are made with the public interest in the forefront. The clarification, enhancement and modernization of extant ISRS 4400 serves the public interest by:

Responding to the Needs of the IAASB's Stakeholders

ED-4400 meets the needs of users, such as regulators, funding bodies and creditors, for increased accountability around the use of funds and grants, and for AUP engagements on financial and non-financial subject matters by:

- Broadening the scope to include financial and non-financial subject matters;
- Adding examples of AUP engagements;
- Clarifying the role professional judgment plays in an AUP engagement;
- Including explanations on the distinctions between AUP engagements and assurance engagements; and
- Highlighting the practitioner's responsibilities under relevant ethical requirements for dealing with fraud and non-compliance with laws and regulations.

Providing Clarity in the AUP Report

ED-4400 enhances the AUP report for clarity and transparency by:

- Adding requirements and application material to help the practitioner avoid the use of terminology in the AUP report that is unclear, misleading or subject to varying interpretations;
- Adding requirements and application material for the AUP report to include statements addressing circumstances when the practitioner is (or is not) required to be independent; and
- Adding a requirement and application material that the AUP report be clearly distinguished from other engagement reports.

Reducing Inconsistency in the Performance of AUP Engagements

ED-4400 is drafted using a drafting convention called the "clarity format", which helps to promote consistency in the performance of AUP engagements. IAASB standards using the clarity format contain the following:

- Introduction: which explains the purpose and scope of the standard;

- Objective: which defines the context in which the requirements are set;
 - Definitions: which include specific meaning of terms in the standard;
 - Requirements: which set out what the practitioner must comply with, using the words “the practitioner shall”; and
 - Application and Other Explanatory Material: which cross-references the requirements and provides further explanation of and guidance for carrying out the requirements of the standard.
7. Details on key revisions that are important in supporting public interest are set out below.

Section 3B – Professional Judgment

8. The *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* states that the nature of International Standards requires the professional accountant to exercise professional judgment in applying them.⁶ However, professional judgment is not discussed in extant ISRS 4400. The Discussion Paper set out the view that the exercise of professional judgment is never suspended in an AUP engagement and that the application of professional judgment may be more evident in the context of professional competence and due care. The Discussion Paper also included a question about what the role of professional judgment should be in an AUP engagement.
9. A significant majority of respondents to the Discussion Paper agreed that professional judgment applies in AUP engagements but the role professional judgment plays in an AUP engagement differs from that in an assurance engagement.
10. The IAASB discussed varying views on the role of professional judgment in an AUP engagement and how this might be reflected in ED-4400, ranging from a very limited role (for example, application material to recognize that professional judgment may be applied when agreeing the terms of engagement but not in performing the procedures) to an unrestricted role (for example, a requirement for the practitioner to apply professional judgment in conducting an AUP engagement with no restrictions).
11. After deliberation of all views, the IAASB identified areas in an AUP engagement where professional judgment is commonly applied and concluded that professional judgment is not suspended in an AUP engagement. However, as an AUP engagement involves the performance of specific procedures that have been agreed upon with the engaging party and where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement, the application of professional judgment when performing procedures in an AUP engagement differs from that in an assurance engagement. To reflect the unique role of professional judgment in an AUP engagement, the IAASB developed:
- A definition of professional judgment in paragraph 13(j) of ED-4400 derived from ISAE 3000 (Revised);⁷

⁶ *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*, paragraph 16

⁷ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

- A requirement for the practitioner to apply professional judgment in accepting and conducting an AUP engagement, taking into account the circumstances of the engagement in paragraph 18 of ED-4400; and
- Application material to provide examples of areas where professional judgment may be applied, and to explain the unique role that professional judgment plays in an AUP engagement in paragraphs A14-A16 of ED-4400.

Section 3C – Practitioner’s Objectivity and Independence

12. The International Ethics Standards Board for Accountants (IESBA)’s *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) requires practitioners to comply with fundamental principles including objectivity. The principle of objectivity requires practitioners not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others. Consistent with the IESBA Code, extant ISRS 4400 states that independence is not a requirement for AUP engagements. However, if the practitioner is not independent, a statement to that effect would be made in the AUP report.⁸
13. A majority of respondents to the Discussion Paper agreed that the existing approach strikes the right balance between acknowledging the value of independence and avoiding a requirement that is unnecessarily restrictive. Other views expressed included:
 - The practitioner should not be required to disclose that the practitioner is not independent. Any requirements relating to independence or disclosure of non-independence should be addressed by the relevant ethical requirements, and not in the ISRS; and
 - The practitioner should be required to be independent unless certain conditions are met (for example, if the engaging party explicitly agrees to the practitioner not being independent).
14. The IAASB recognizes that the practitioner’s independence is a matter of public interest for assurance engagements. In relation to AUP engagements, in response to comments received on the Discussion Paper and jointly with the IESBA, the IAASB explored the various options pertaining to a practitioner’s independence, including the relevance and applicability of requiring the practitioner be independent under certain circumstances, such as when the AUP report is available to the public.
15. Consistent with the view expressed by the majority of respondents to the Discussion Paper and after consultation with the IESBA, the IAASB ultimately decided not to make it a precondition for the practitioner to be independent. Factors considered by the IAASB in reaching this conclusion include:
 - Given that the practitioner is reporting on factual results from performing AUP, independence is less important as it is unlikely that factual results would be susceptible to potential bias;
 - As indicated by the majority of respondents to the Discussion Paper, including a precondition for independence in ED-4400 seems unnecessarily restrictive. For example, many practitioners, especially those in small-and-medium-sized practices, may be requested to perform AUP engagements by entities for which the practitioner has not assessed independence; and
 - The IESBA Code does not require a practitioner performing non-assurance engagements such as AUP engagements to be independent. Including a precondition for independence in ED-4400 would result in inconsistencies with the IESBA Code and may result in confusion. Also, as the IESBA Code does not require a practitioner performing an AUP engagement to be

⁸ ISRS 4400, paragraph 7

independent, there are currently no generally accepted criteria for determining independence in these circumstances.

Disclosure of Independence

16. The IAASB recognizes that the extant approach of including a statement in the AUP report if the practitioner is not independent may not be practicable in some circumstances. For example, if there is no requirement for the practitioner to be independent, it is unlikely that the practitioner would assess independence and therefore be in a position to determine that the practitioner is, in fact, not independent. Despite the potential impracticalities, the IAASB is of the view that transparency regarding the practitioner's independence (or lack thereof) is essential to the public interest.
17. Although the IESBA Code does not require a practitioner performing an AUP engagement to be independent, the practitioner may be required to be independent because of the ethical requirements relevant to the particular jurisdiction, the terms of the engagement, or other reasons (such as firm policy).
18. If the practitioner is required to be independent, the practitioner would determine that the practitioner is independent before accepting the AUP engagement. The IAASB is of the view that it is in the public interest to enhance transparency regarding the practitioner's determination of independence, in particular by describing in the AUP report:
 - The criteria the practitioner used to determine independence; and
 - The result of the practitioner's assessment of independence (i.e., that the practitioner is independent).

This enhanced transparency is reflected in paragraph 30(f)(i) of ED-4400.

19. If there is no requirement for the practitioner to be independent, it is likely that the practitioner would not have assessed independence. There were different views as to whether the practitioner would include a statement that the practitioner is not independent under extant ISRS 4400 in such a case. For example, some have interpreted that a statement that the practitioner is not independent would only be included in the AUP report if the practitioner has determined that the practitioner is, in fact, not independent. Others have interpreted that the statement that the practitioner is not independent would be included in the AUP report if the practitioner did not, or was unable to, determine that the practitioner is, in fact, independent.
20. To enhance the clarity of the AUP report, if the practitioner is not required to be independent and has not assessed independence, paragraph 30(f)(ii)(a) of ED-4400 requires the practitioner to state that the practitioner is not required to be independent.
21. In some circumstances, the practitioner may have determined that the practitioner is independent (or is not independent) even though there is no requirement for the practitioner to be independent. For example, the practitioner may have reached a conclusion on independence when performing an audit engagement for the entity or when previously considering whether to accept an assurance engagement for the entity. To enhance transparency in these circumstances:
 - If the practitioner has determined that the practitioner is independent, the AUP report would include a statement that the practitioner is independent and the basis therefor (Paragraph 30(f)(ii)(b) of ED-4400); or
 - If the practitioner has determined that the practitioner is not independent, the AUP report would include a statement to that effect (Paragraph 30(g) of ED-4400).

22. The table below summarizes the requirements and application material to **enhance transparency** regarding the practitioner’s independence:

		Is practitioner required to be independent by relevant ethical requirements, terms of the engagement, or other reasons?	
		Yes	No
Is practitioner independent?	Not known – The practitioner has not determined independence	The practitioner is not able to perform the engagement because the practitioner has not made a determination on independence.	Include a statement that the practitioner is not required to be independent in the AUP report. (Paragraph 30(f)(ii)(a) of ED-4400)
	Yes	Include a statement that the practitioner is independent and the basis therefor in the AUP report. (Paragraph 30(f)(i) of ED-4400)	Include a statement that the practitioner is independent and the basis therefor in the AUP report. (Paragraphs 30(f)(ii)(b) and A40 of ED-4400)
	No	The practitioner is not able to perform the engagement because the practitioner is not independent.	Include a statement in the AUP report that the practitioner is not required to be independent and that the practitioner is not independent. (Paragraphs 30(f)(ii)(a), 30(g) and A41-A42 of ED-4400)

23. After deliberating the issue, the IAASB agreed that the proposed approach reflects an appropriate balance among the need for:

- The AUP engagement to be performed by a practitioner who is objective (that is, the practitioner’s professional or business judgment is not compromised);
- Flexibility to address circumstances when the engaging party does not require the practitioner to be independent or the practitioner is required to perform the engagement despite not being independent;
- Transparency regarding the practitioner’s independence; and
- Avoiding placing onerous obligations on the practitioner to assess independence if the practitioner is not required to be independent.

Section 3D – Quality Control

24. ED-4400 contains a number of paragraphs relating to quality control. The IAASB is currently undertaking a project to revise ISQC 1.⁹ The paragraphs in ED-4400 relating to quality control are subject to change pending the IAASB’s revisions.
25. The IAASB intends to address changes to the IAASB’s International Standards arising from proposed ISQM 1¹⁰ in a holistic manner. As a temporary measure, paragraphs in ED-4400 relating to quality control are replicated from ISRS 4410 (Revised)¹¹ with minimal changes. This approach allows ED-4400 to become effective before the effective date of proposed ISQM 1.

Section 3E – Findings

26. Extant ISRS 4400 refers to “factual findings”. Consistent with the view expressed by a significant majority of respondents to the Discussion Paper, the IAASB is of the view that performing the procedures in an AUP engagement should result in objectively verifiable factual findings and not subjective opinions or conclusions.
27. The IAASB considered whether the term “factual findings” may imply that there might be findings that are “not factual”. To better communicate that the results from performing the AUP must be factual, ED-4400:
 - Uses the term “findings” instead of “factual findings”;
 - Includes a definition that “findings are the factual results of procedures performed. Findings are capable of being objectively verified and objectively described. Accordingly, references to findings in this ISRS exclude opinions or conclusions in any form as well as any recommendations that the practitioner may make” in paragraph 13(f) of ED-4400; and
 - Explains in paragraph A10 of ED-4400 that factual results are capable of being objectively described and objectively verified, which means that different practitioners performing the same procedures are expected to arrive at the same results.
28. The IAASB recognizes that, in some jurisdictions, the term “findings” and “factual findings” may have different meanings. Accordingly, paragraph A11 of ED-4400 indicates that the term “findings” may be replaced with “factual findings” in some jurisdictions.

Section 3F – Engagement Acceptance and Continuance

29. Extant ISRS 4400 sets out requirements and guidance dealing with the terms of the engagement.¹² However, the extant ISRS does not contain any requirements or application material on conditions required to be met before the practitioner can accept an AUP engagement (“engagement acceptance and continuance conditions”).
30. In response to a need identified in the project proposal to develop criteria for accepting an AUP engagement, ED-4400 sets out engagement acceptance and continuance conditions in paragraphs

⁹ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

¹⁰ Proposed International Standard on Quality Management (ISQM) (previously ISQC 1)

¹¹ ISRS 4410 (Revised), *Compilation Engagements*

¹² ISRS 4400, paragraphs 9-12

20-21 and A20-A29 of ED-4400. These paragraphs were developed to reinforce the unique characteristics of an AUP engagement, namely:

- That the engaging party acknowledges that the expected procedures to be performed by the practitioner are appropriate for the purpose of the engagement; and
- That the AUP and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.

Engaging Party's Acknowledgement

31. Paragraph 20(a) of ED-4400 sets out the engagement acceptance and continuance condition for the practitioner to determine that the engaging party acknowledges that the expected procedures to be performed by the practitioner are appropriate for the purpose of the engagement.
32. In developing this requirement, the IAASB considered whether to extend the engaging party's acknowledgement to cover acknowledgement that the procedures are appropriate for the purpose of the intended users. The IAASB ultimately decided not to do so as it may not be practicable for the engaging party to be able to acknowledge that the procedures are appropriate for the intended users.
33. Nonetheless, the IAASB recognizes the importance of AUP that are appropriate for the intended users. Therefore, the IAASB developed guidance in paragraph A26 of ED-4400 on actions that the practitioner may take to be satisfied that the engagement acceptance and continuance conditions are met. This guidance may also assist the practitioner and the engaging party to agree on procedures that are appropriate for intended users.

Terminology

34. Misleading terminology is a major contributor to ongoing market confusion over what an AUP engagement entails and is a contributor to the expectation gap between practitioners and users and other stakeholders. Paragraph 20(b) of ED-4400 sets out the engagement acceptance and continuance condition for the AUP and related findings to be capable of being described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.
35. Further, in response to broad calls for guidance on what constitutes unclear or misleading terminology, paragraphs A23-A25 of ED-4400 provide examples of potentially inappropriate terminology and guidance on the steps a practitioner may take to address circumstances in which the terminology may be unclear, misleading or subject to varying interpretations.

Section 3G – Practitioner's Expert

36. Extant ISRS 4400 does not deal with the use of an expert. A significant majority of respondents to the Discussion Paper were of the view that it would be useful to develop new requirements and application material to address the use of the work of a practitioner's expert in an AUP engagement, including the practitioner's responsibilities when using the work of a practitioner's expert and consideration of whether it is appropriate to include references to a practitioner's expert in the AUP report.
37. As a response, the IAASB developed a requirement and application material dealing with the use of a practitioner's expert in paragraphs 28 and A35-A36 of ED-4400. In developing the requirement and application material, the IAASB is cognizant of the concern that the use of a practitioner's expert may imply the application of significant professional judgment beyond that contemplated in an AUP

engagement. The IAASB believes that a practitioner's expert can appropriately assist the practitioner within the context of an AUP engagement by applying the expert's competence and capabilities. ED-4400 includes some examples (such as a chemist determining the toxin levels in a sample of grains) of how a practitioner's expert can assist the practitioner in an AUP engagement.

38. On the issue of referring to a practitioner's expert in the AUP report, the IAASB recognizes the importance that the wording of the AUP report does not imply that the practitioner's responsibility is reduced because of the involvement of a practitioner's expert. This is reflected in paragraphs 31 and A44 of ED-4400, which follow a similar approach to ISAE 3000 (Revised).¹³

Section 3H – AUP Report Restrictions

39. Extant ISRS 4400 requires the practitioner's report to include a statement that the report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results.¹⁴ It is unclear who the "parties that have agreed to the procedures to be performed" are. A narrow interpretation is that the AUP report is restricted to signatories to the engagement letter.
40. Responses to the Discussion Paper confirmed that AUP reports are often required to be provided to users such as regulators who are not parties to the terms of the engagement, or posted online as required by law or regulation. ED-4400 no longer restricts the AUP report to parties that have agreed to the procedures to be performed, and provides guidance, in paragraph A43 of ED-4400, on the practitioner's considerations when restricting the use of the AUP report to better meet users' needs. This paragraph is based on paragraph A21 of ISA 800.¹⁵

Section 3I – Other Changes

41. In addition to the matters discussed above, ED-4400 introduces several key aspects of an AUP engagement, including:

Non-Financial Subject Matters

42. Extant ISRS 4400 is "directed toward engagements regarding financial information. However, it may provide useful guidance for engagements regarding non-financial information, provided the practitioner has adequate knowledge of the subject matter in question and reasonable criteria exist on which to base findings."¹⁶
43. Responses to the Discussion Paper confirmed that AUP engagements are increasingly performed on non-financial subject matters. Clarifying that the scope includes non-financial subject matters in paragraphs 2 and A1-A2 of ED-4400 addresses market demand for such engagements.

¹³ ISAE 3000 (Revised), paragraphs 70 and A185-A186

¹⁴ ISRS 4400, paragraph 6

¹⁵ International Standard on Auditing (ISA) 800 (Revised), *Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

¹⁶ ISRS 4400, paragraph 2

Written Representations

44. Extant ISRS 4400 does not include requirements or application material that deal with written representations. Several respondents to the Discussion Paper suggested that the IAASB consider whether the practitioner should be required to request written representations from management.
45. The IAASB considered a requirement for the practitioner to request written representations but decided not to do so for the following reasons:
- The engaging party may not be the responsible party. In such cases, it may not be practicable for the practitioner to request written representations from the responsible party;
 - Written representations are primarily intended to serve as evidence to support a practitioner's opinion or assurance conclusion. Since an AUP engagement is not an assurance engagement, the IAASB does not see a need to require the practitioner to request written representations; and
 - Acknowledgement of the engaging party's responsibilities is already addressed in agreeing the terms of engagement.
46. However, the IAASB recognizes that, in practice, some practitioners do request written representations. Therefore, the IAASB included guidance in paragraph A34 of ED-4400.

Recommendations Arising from the Performance of AUP Engagements

47. Extant ISRS 4400 does not contemplate the practitioner recommending changes or improvements on matters that arose from the performance of AUP engagements. Responses to the Discussion Paper indicate that practitioners may be requested to make recommendations together with an AUP engagement. For example, regulators may request recommendations on **improving controls relating to deficiencies identified in the AUP report**.
48. To better meet users' needs, paragraph 33 of ED-4400 requires the **AUP report to be clearly distinguished from other engagement reports (such as recommendations)** and paragraph A45 of ED-4400 provides guidance on how recommendations can be distinguished from the AUP report.

Documentation

49. Extant ISRS 4400 does not contain requirements and application material on documentation. In response to respondents' request for documentation requirements and application material, paragraphs 34 and A46 of ED-4400 set out the requirement and application material on documentation. These paragraphs are derived from ISAE 3000 (Revised).¹⁷

¹⁷ ISAE 3000 (Revised), paragraphs 79 and A196

Section 4 Request for Comments

Respondents are asked to comment on the clarity, understandability and practicality of application of the requirements and related application material of ED-4400. In this regard, comments will be most helpful if they are identified with specific aspects of ED-4400 and include the reasons for any concern about clarity, understandability and practicality of application, along with suggestions for improvement.

Overall Question

Public Interest Issues Addressed in ED-4400

- 1) Has ED-4400 been appropriately clarified and modernized to respond to the needs of stakeholders and address public interest issues?

Specific Questions

Professional Judgment

- 2) Do the definition, requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role professional judgment plays in an AUP engagement?

Practitioner's Objectivity and Independence

- 3) Do you agree with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)? If not, under what circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the IAASB would discuss the relevant independence considerations with the IESBA?
- 4) What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the Explanatory Memorandum, and the related requirements and application material in ED-4400? Do you believe that the practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.

Findings

- 5) Do you agree with the term "findings" and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED-4400?

Engagement Acceptance and Continuance

- 6) Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED-4400, appropriate?

Practitioner's Expert

- 7) Do you agree with the proposed requirements and application material on the use of a practitioner's expert in paragraphs 28 and A35-A36 of ED-4400, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED-4400?

AUP Report

- 8) Do you agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?
- 9) Do you support the content and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 2 of ED-4400? What do you believe should be added or changed, if anything?

Request for General Comments

- 10) In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:
 - (a) Translations—recognizing that many respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-4400.
 - (b) Effective Date—Recognizing that ED-4400 is a substantive revision and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for AUP engagements for which the terms of engagement are agreed approximately 18–24 months after the approval of the final ISRS. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISRS. Respondents are also asked to comment on whether a shorter period between the approval of the final ISRS and the effective date is practicable.

**INTERNATIONAL STANDARD ON
RELATED SERVICES 4400 (REVISED)
AGREED-UPON PROCEDURES ENGAGEMENTS**

(Effective for agreed-upon procedures engagements
for which the terms of engagement are agreed on or after [DATE])

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International Standard on Related Services (ISRS) 4400 (Revised), <i>Agreed-Upon Procedures Engagements</i> , should be read in the context of the <i>Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements</i> .
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The grey shaded materials are adapted from ISRS 4410 (Revised), *Compilation Engagements*, and relate to International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*.

Introduction

Scope of this ISRS

1. This International Standard on Related Services (ISRS) deals with:
 - (a) The practitioner's responsibilities when engaged to perform agreed-upon procedures; and
 - (b) The form and content of the agreed-upon procedures report.
2. This ISRS applies to the performance of agreed-upon procedures engagements on financial or non-financial subject matters. (Ref: Para. A1–A2)

Relationship with ISQC 1¹⁸

3. Quality control systems, policies and procedures are the responsibility of the firm. ISQC 1 applies to firms of professional accountants in respect of a firm's agreed-upon procedures engagements. The provisions of this ISRS regarding quality control at the level of individual agreed-upon procedures engagements are premised on the basis that the firm is subject to ISQC 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 procedures agreed upon by the practitioner and the engaging party and communicates the procedures performed and the related findings in the agreed-upon procedures report. The value of an agreed-upon procedures engagement performed in accordance with this ISRS 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.

The engaging party acknowledges the appropriateness of the procedures for the purpose of the engagement. The engaging party and intended users assess for themselves the procedures and findings reported by the practitioner and draw their own conclusions from the work performed by the practitioner.

5. In an agreed-upon procedures engagement, the practitioner does not perform an audit, review or other assurance engagement. The agreed-upon procedures engagement does not involve obtaining evidence for the purpose of the practitioner expressing an opinion or conclusion in any form.

¹⁸ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

6. Law, regulation or relevant ethical requirements may establish responsibilities for the practitioner regarding fraud or an entity's non-compliance with laws or regulations.¹⁹ The practitioner's responsibilities in responding to identified or suspected fraud or non-compliance with laws and regulations may include communicating with the engaging party, assessing the appropriateness of the engaging party's response, determining whether further action is needed, and preparing adequate documentation.

Authority of this ISRS

7. This ISRS contains the objectives of the practitioner in following the ISRS, which provide the context in which the requirements of this ISRS 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 ISRS contains requirements, expressed using "shall," that are designed to enable the practitioner to meet the stated objectives.
9. In addition, this ISRS contains introductory material, definitions, and application and other explanatory material, that provide context relevant to a proper understanding of this ISRS.
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 ISRS that assists in the application of the requirements.

Effective Date

11. This ISRS is effective for agreed-upon procedures engagements for which the terms of engagement are agreed on or after [DATE].

Objectives

12. The practitioner's objectives in an agreed-upon procedures engagement under this ISRS are to:
 - (a) Agree the procedures to be performed with the engaging party;
 - (b) Perform the agreed-upon procedures; and
 - (c) Communicate the procedures performed and the related findings in accordance with the requirements of this ISRS.

Definitions

13. For purposes of this ISRS, the following terms have the meanings attributed below:
 - (a) Agreed-upon procedures – Procedures that have been agreed to by the practitioner and the engaging party.

¹⁹ The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) (Section 360) requires the practitioner to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed.

- (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 have agreed and to communicate the procedures performed and the related findings in an agreed-upon procedures report. The practitioner does not express an opinion or conclusion on the results of the procedures performed.
- (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 engages the practitioner to perform the agreed-upon procedures engagement. (Ref: Para. A9)
- (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 procedures performed. Findings are capable of being objectively verified and objectively described. Accordingly, references to findings in this ISRS exclude opinions or conclusions in any form as well as any recommendations that the practitioner may make. (Ref: Para. A10–A11)
- (g) Intended users – The individual(s) or organization(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.
- (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 ISRS 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 organization possessing expertise in a field other than assurance, whose work in that field is used by the practitioner in performing agreed-upon procedures. 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 judgment - The application of relevant training, knowledge and experience, within the context provided by professional standards, 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 IESBA Code together with national requirements that are more restrictive.

Requirements

Conduct of an Agreed-Upon Procedures Engagement in Accordance with this ISRS

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

Complying with Relevant Requirements

15. The practitioner shall comply with each requirement of this ISRS 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 ISRS unless the practitioner has complied with all requirements of this ISRS relevant to the agreed-upon procedures engagement.

Relevant Ethical Requirements

17. The practitioner shall fulfill the practitioner's responsibilities in accordance with relevant ethical requirements. (Ref: Para. A12–A13)

Professional Judgment

18. The practitioner shall apply professional judgment in accepting and conducting an agreed-upon procedures engagement, taking into account the circumstances of the engagement. (Ref: Para. A14–A16)

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. A17)
 - (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. A18)
 - (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. A19)
 - (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.

Engagement Acceptance and Continuance

20. Before accepting an agreed-upon procedures engagement, the practitioner shall determine that the following conditions are present: (Ref: Para. A20–A29)
 - (a) The engaging party acknowledges that the expected procedures to be performed by the practitioner are appropriate for the purpose of the engagement; and
 - (b) The agreed-upon procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.
21. Before accepting an agreed-upon procedures engagement, the practitioner shall obtain an understanding of the purpose of the engagement. The practitioner shall not accept the engagement if the practitioner is aware of any facts or circumstances suggesting that the procedures the practitioner is being asked to perform are inappropriate for the purpose of the agreed-upon procedures engagement. (Ref: Para. A26, A29)

Agreeing the Terms of the Engagement

22. The practitioner shall agree the terms of the agreed-upon procedures engagement with the engaging party. These terms shall include the following:
 - (a) The nature of the agreed-upon procedures engagement, including a statement that the procedures to be performed do not constitute a reasonable or limited assurance engagement and accordingly, the practitioner does not express an opinion or conclusion;
 - (b) Acknowledgement by the engaging party that the procedures are appropriate for the purpose of the engagement;
 - (c) The purpose of the engagement and the intended users of the agreed-upon procedures report as identified by the engaging party;
 - (d) Acknowledgement of the relevant ethical requirements with which the practitioner will comply in conducting the agreed-upon procedures engagement and whether the practitioner is required to be independent;
 - (e) Identification of the subject matters on which the agreed-upon procedures will be performed;
 - (f) The nature, timing and extent of the procedures to be performed;
 - (g) Reference to the expected form and content of the agreed-upon procedures report; and
 - (h) Identification of the addressee of the agreed-upon procedures report.
23. Where the agreed-upon procedures are modified over the course of the engagement, the practitioner shall agree amended terms of engagement with the engaging party that reflect the modified procedures. (Ref: Para. A30)
24. The practitioner shall record the agreed terms of engagement in an engagement letter or other suitable form of written agreement. (Ref: Para. A31)

Recurring Engagements

25. 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. A32)

Performing the Agreed-Upon Procedures

26. The practitioner shall perform the procedures as agreed upon in the terms of the engagement. (Ref: Para. A33)
27. The practitioner shall consider whether it is necessary to request written representations from the engaging party. (Ref: Para. A34)

Using the Work of a Practitioner's Expert

28. If the practitioner uses the work of a practitioner's expert, the practitioner shall: (Ref: Para. A35–A36)
 - (a) Evaluate the expert's competence, capabilities and objectivity;
 - (b) Determine whether the practitioner will be able to be involved in the work of the expert to an extent that is sufficient to take responsibility for the findings included in the agreed-upon procedures report;
 - (c) Determine whether the nature, timing and extent of the work performed by the expert is consistent with the work agreed with the expert; and
 - (d) Determine whether the findings reported by the expert adequately describe the results of the work performed.

The Agreed-Upon Procedures Report

29. The agreed-upon procedures report shall be in writing.
30. The agreed-upon procedures report shall include: (Ref: Para. A37-A39)
 - (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 matters on which the procedures have been performed;
 - (d) A statement that the engagement was performed in accordance with ISRS 4400 (Revised);
 - (e) A statement that the firm of which the practitioner is a member applies ISQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 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 ISQC 1;
 - (f) With respect to independence:
 - (i) If required to be independent by relevant ethical requirements, terms of the engagement, or other reasons, a statement that the practitioner is independent and the basis therefor; or
 - (ii) If not required to be independent by relevant ethical requirements, terms of the engagement, or other reasons, either:
 - a. A statement that the practitioner is not required to be independent; or

- b. If a determination has been made that the practitioner is independent, a statement to that effect and the basis therefor; (Ref: Para. A40)
 - (g) When it is known that the practitioner is not independent, a statement to that effect; (Ref: Para. A41–A42)
 - (h) 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 to by the practitioner and the engaging party, and reporting the findings based on the procedures performed; and
 - (ii) The engaging party has acknowledged that the procedures are appropriate for the purpose of the engagement, and that the practitioner makes no representation regarding their appropriateness;
 - (i) A description of the procedures performed detailing the nature and extent, and if applicable, the timing, of each procedure;
 - (j) The findings from each procedure performed, including details on exceptions found;
 - (k) A statement that the agreed-upon procedures engagement does not constitute a reasonable or limited assurance engagement and accordingly, the practitioner does not express an opinion or conclusion;
 - (l) A statement that, had the practitioner performed additional procedures, other matters might have come to the practitioner’s attention that would have been reported;
 - (m) 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. A43)
 - (n) The practitioner’s signature;
 - (o) The date of the agreed-upon procedures report; and
 - (p) The location in the jurisdiction where the practitioner practices.
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. A44)
32. The practitioner shall date the agreed-upon procedures report on the date the practitioner has completed the agreed-upon procedures engagement in accordance with this ISRS.

Undertaking an Agreed-Upon Procedures Engagement Together with another Engagement

33. The agreed-upon procedures report shall be clearly distinguished from other engagement reports. (Ref: Para. A45)

Documentation

34. The practitioner shall include in the engagement documentation: (Ref: Para. A46)
- (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.

Application and Other Explanatory Material

Scope of this ISRS (Ref: Para. 2)

- A1. Reference to “subject matters” in this ISRS encompasses anything on which agreed-upon procedures are performed, including information, documents, measurements or compliance with laws and regulations.
- A2. Examples of financial and non-financial subject matters on which an agreed-upon procedures engagement may be performed include:
- Financial information relating to:
 - The entity’s financial statements or specific classes of transactions, account balances or disclosures within the financial statements.
 - Eligibility of expenditures claimed from a funding program.
 - Revenues for determining royalties, rent or franchise fees based on a percentage of revenues.
 - Capital adequacy ratios for regulatory authorities.
 - Non-financial subject matters relating to:
 - Numbers of passengers reported to a civil aviation authority.
 - Observation of destruction of fake or defective goods reported to a regulatory authority.
 - Data generating processes for lottery draws reported to a regulatory authority.
 - Volume of greenhouse gas emissions reported to a regulatory authority.
 - Compliance with contract or regulation.

The above list is not exhaustive. Additional types of agreed-upon procedures engagements may arise as external reporting demands evolve.

Relationship with ISQC 1 (Ref: Para. 3)

- A3. ISQC 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 ISQC 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.²⁰

A5. A jurisdiction that has not adopted ISQC 1 in relation to agreed-upon procedures engagements may set out requirements for quality control in firms performing such engagements. The provisions of this ISRS 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 ISQC 1. This is achieved when those requirements impose obligations on the firm to achieve the aims of the requirements of ISQC 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.

²⁰ ISQC 1, paragraph 11

Definitions

Engaging Party (Ref: Para. 13(d))

A9. The engaging party may be, under different circumstances, the responsible party, a regulator or other intended user.

Findings (Ref: Para. 13(f))

A10. Factual results are capable of being objectively described and objectively verified, which means that different practitioners performing the same procedures are expected to arrive at the same results.

A11. In some jurisdictions, the term “findings” may be replaced with “factual findings”.

Relevant Ethical Requirements (Ref: Para. 17)

A12. A practitioner performing an agreed-upon procedures engagement is required to fulfill the practitioner’s responsibilities in accordance with relevant ethical requirements. Relevant ethical requirements ordinarily comprise the IESBA Code, together with national requirements that are more restrictive. The IESBA Code requires practitioners to comply with fundamental principles including objectivity, which requires practitioners not to compromise their professional or business judgment 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.

A13. The IESBA Code does not contain independence requirements for agreed-upon procedures engagements. Accordingly, there is no requirement for the practitioner to determine independence. However, national ethical codes, laws or regulations, the firm’s policies and procedures, or the terms of engagement may specify requirements pertaining to independence.

Professional Judgment (Ref: Para. 18)

A14. Professional judgment is applied in the acceptance and proper conduct of an agreed-upon procedures engagement. Professional judgment is necessary to interpret and apply relevant ethical requirements and this ISRS, and in making informed decisions about courses of actions throughout the agreed-upon procedures engagement.

A15. Professional judgment may be applied in an agreed-upon procedures engagement as follows:

- Discussing the nature, timing and extent of the procedures to be performed (taking into account the purpose of the engagement) with the engaging party, and in some cases, the intended users or the responsible party (if these parties are not the engaging party) or the practitioner’s expert.
- Describing the findings in an objective manner.
- Determining whether any of the terminology used to describe the procedures or findings is unclear, misleading, or subject to varying interpretations.
- 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.
- 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 indicate that the information may be misleading.

A16. Unlike in an assurance engagement, the procedures performed in an agreed-upon procedures engagement are not designed by the practitioner to obtain reasonable or limited assurance evidence that provides a basis for an opinion or conclusion. Rather, an agreed-upon procedures engagement involves the performance of the specific procedures that have been agreed upon with the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. The more a procedure requires professional judgment, the more the practitioner may need to consider whether the condition that the agreed-upon procedures and findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations is present.

Engagement Level Quality Control (Ref: Para. 19)

A17. 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, emphasize 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 ISRS.

A18. ISQC 1 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.

A19. ISQC 1 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 ISRS sets out the engagement partner's responsibilities with respect to the engagement team's compliance with relevant ethical requirements.

Engagement Acceptance and Continuance (Ref: Para. 20–21)

A20. The procedures to be performed during the agreed-upon procedures engagement may be prescribed by law or regulation. In some cases, 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 20(b), a condition of accepting an agreed-upon procedures engagement is that the practitioner has determined that the agreed-upon procedures and findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.

- A21. In some circumstances, law or regulation may prescribe only the nature of the procedures to be performed. In such circumstances, in accordance with paragraph 22(f), 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.
- A22. The practitioner is required to determine that the agreed-upon procedures can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations. This means that the agreed-upon procedures to be performed are expected to be 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 recognize 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;
 - Inquire;
 - Recalculate; and
 - Observe.
- A23. 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 IAASB’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” 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” 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”.

- A24. 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.
 - The term “reasonable” is subject to varying interpretations as to what constitutes “reasonable”.
- A25. In cases where 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 20(b) by, for example, obtaining the agreement of 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.
- A26. Other actions that may satisfy the practitioner that the conditions in paragraphs 20 and 21 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 the intended user(s) if the engaging party is not the intended user.
- A27. If the conditions in paragraph 20 are not met, it is unlikely that an agreed-upon procedures engagement is able to meet the needs of the engaging party. In such cases, the practitioner may suggest other services, such as an assurance engagement, that may be more appropriate.
- A28. Facts or circumstances suggesting that the procedures may be inappropriate for the purpose of the agreed-upon procedures engagement may include, for example, procedures on subject matters that are unreliable or procedures that deal with existence of inventory when the purpose of the engagement is concerned with the completeness of inventory.
- A29. All the conditions in paragraphs 20 and 21 also apply to procedures that have been added or modified during the course of the engagement.

Agreeing the Terms of the Engagement (Ref: Para. 23–25)

- A30. In some cases, agreeing the terms of engagement and performing the agreed-upon procedures takes place in a linear and discrete manner. In other cases, 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 23 requires the practitioner to agree 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.
- A31. An illustrative engagement letter for an agreed-upon procedures engagement is set out in Appendix 1.

Recurring Engagements

- A32. 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 and scope of the engagement.
 - 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.

Performing the Agreed-Upon Procedures (Ref: Para. 26–27)

- A33. In some circumstances, the procedures agreed upon may need to be modified over the course of the engagement. In such circumstances, paragraph 23 requires the practitioner to agree amended terms of engagement with the engaging party to reflect the modified procedures.
- A34. The practitioner may, for example, request representations that the engaging party has provided the practitioner with access to all records relevant to the agreed-upon procedures engagement or that the engaging party has disclosed to the practitioner its knowledge of identified or suspected fraud or non-compliance with laws and regulations.

Using the Work of a Practitioner’s Expert (Ref: Para. 28)

- A35. A practitioner’s expert may assist the practitioner in discussing the procedures to be performed or performing the agreed-upon procedures by applying the expert’s competence and capabilities. For example, an agreed-upon procedures engagement may involve a chemist determining the toxin levels in a sample of grains, an engineer or lawyer in dealing with engineering or legal aspects of a contract, or a procurement officer to check whether acquisitions meet procurement guidelines.
- A36. As set out in paragraph 19(a), the engagement partner is required to take responsibility for the overall quality of the agreed-upon procedures engagement including, if applicable, work performed by a practitioner’s expert.

The Agreed-Upon Procedures Report (Ref: Para. 30–31)

- A37. If applicable, 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 is performed to avoid misunderstanding. 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 statements taken as a whole.
- A38. If the responsible party is not the engaging party, the practitioner may consider obtaining the responsible party's agreement in order to include the name of the responsible party in the agreed-upon procedures report.
- A39. Appendix 2 contains illustrations of agreed-upon procedures reports.
- A40. In some circumstances, the practitioner may have determined that the practitioner is independent even though the relevant ethical requirements do not require such a determination. For example, the practitioner may have made the independence determination in connection with performing an audit engagement for the entity.
- A41. In other circumstances, the practitioner may have determined that the practitioner is not independent even though the relevant ethical requirements do not require such a determination. For example, the practitioner may have determined that the practitioner is not independent when previously considering whether to accept an assurance engagement for the entity.
- A42. If a statement is made that the practitioner is not independent, the practitioner may wish to include an explanation as to why the practitioner is not independent.
- A43. In addition to the statement required by paragraph 30(m), the practitioner may consider it appropriate to indicate that the agreed-upon procedures report is intended solely for the engaging party and the intended users. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the agreed-upon procedures report.
- A44. In some cases, 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. As set out in paragraph 19(a), the engagement partner takes responsibility for the overall quality of the agreed-upon procedures engagement, including, if applicable, work performed by the practitioner's expert. The practitioner's responsibility is not reduced by the reference to the practitioner's expert in the agreed-upon procedures report.

Undertaking an Agreed-Upon Procedures Engagement Together with another Engagement (Ref: Para. 33)

- A45. 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 33 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. 34)

A46. 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 matters on which the agreed-upon procedures are performed. Identifying characteristics will vary depending on the nature of the agreed-upon procedure and the subject matters 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 inquiries of specific personnel, the practitioner may record the dates of the inquiries, the names and job designations of the personnel and the specific inquiries 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.
- If applicable, who reviewed the agreed-upon procedures performed, and the date and extent of such review.

Appendix 1

(Ref: Para. A31)

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 ISRS. 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 ISRS. 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 ISRS. 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 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 International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*. In performing the agreed-upon procedures engagement, we will comply with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, which does not require us to be independent.

An agreed-upon procedures engagement performed under ISRS 4400 (Revised) involves our performing the procedures agreed with you, and communicating the findings in the agreed-upon procedures report based on the procedures performed. You acknowledge that the procedures are appropriate for the purpose of the engagement. We make no representation regarding the appropriateness of the procedures. The procedures we perform do not constitute a reasonable or limited assurance engagement. Accordingly, we do not express any opinion or conclusion on the procurement of products.

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.²¹ Accordingly, our report will be addressed to you and our report may not be suitable for another purpose.

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, 20X8] and [December 31, 20X8] for [xyz] products ("listing") and identify contracts valued at over \$25,000.
- For each identified contract valued at over \$25,000 on the listing, compare the contract to 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 each contract valued at over \$25,000 in 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.

²¹ In this case, the engaging party is also the intended user.

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 be addressed to you and 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].

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. A43)

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 intended user.
- No exceptions were found.
- The practitioner did not engage an individual or organization that is not part of the engagement team to perform the agreed-upon procedures.
- There is no restriction on the use or distribution of the report.
- The practitioner is required to be independent in accordance with the terms of the engagement.

AGREED-UPON PROCEDURES REPORT

To [Addressee]

We have performed the procedures described below, which were agreed to by [Engaging Party], on the procurement of [xyz] products. Our engagement was undertaken in accordance with the International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements* (“ISRS 4400 (Revised)”). The terms of our engagement require us to be independent, and we are independent based on our determination in accordance with the independence provisions in [describe the relevant ethical requirements used]. Our firm applies International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, 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.

An agreed-upon procedures engagement performed in accordance with ISRS 4400 (Revised) involves our performing of the procedures that have been agreed to by us and [Engaging Party], and reporting the findings based on the procedures performed. [Engaging Party] has acknowledged that the procedures are appropriate for the purpose of the engagement. We make no representation regarding the appropriateness of the procedures described below.

	Procedure	Finding
1	Obtain from management of [Engaging Party] a listing of all contracts signed between [January 1, 20X8] and [December 31, 20X8] for [xyz] products (“listing”) and identify contracts valued at over \$25,000.	We obtained from management a listing of contracts for [xyz] products which were signed between January 1, 20X8 and December 31, 20X8. 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 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”.	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 [Engaging Party]’s “Pre-qualified Contractors List”.
3	For each contract valued at over \$25,000 in 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 ultimately paid were same as the agreed amounts in the 37 contracts with no exceptions noted.</p>

This agreed-upon procedures engagement does not constitute a reasonable or limited assurance engagement. Accordingly, we do not express any opinion or conclusion on the procurement of [xyz] products by [Engaging Party].

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

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.

[Practitioner’s signature]

[Date of practitioner’s report]

[Practitioner’s address]

Illustration 2

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

- The engaging party is the addressee and the intended user.
- 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 or distribution of the report.
- The relevant ethical requirements do not require the practitioner to be independent, and the practitioner has not made a determination regarding independence.

AGREED-UPON PROCEDURES REPORT

To [Addressee]

We have performed the procedures described below, which were agreed to by [Engaging Party], on the procurement of [xyz] products. Our engagement was undertaken in accordance with the International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements* (“ISRS 4400 (Revised)”). In performing this engagement, we are not required to be independent. Our firm applies International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, 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.

An agreed-upon procedures engagement performed in accordance with ISRS 4400 (Revised) involves our performing of the procedures that have been agreed to by us and [Engaging Party] and reporting on findings based on the procedures performed. [Engaging Party] has acknowledged that the procedures are appropriate for the purpose of the engagement. We make no representation regarding the appropriateness of the procedures described below.

	Procedure	Finding
1	Obtain from management of [Engaging Party] a listing of all contracts signed between [January 1, 20X8] and [December 31, 20X8] for [xyz] products (“listing”) and identify contracts valued at over \$25,000.	We obtained from management a listing of contracts for [xyz] products which were signed between January 1, 20X8 and December 31, 20X8. 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 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”.	<p>We inspected the records of bidding related to the 37 contracts valued at over \$25,000. 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 subjected to competitive bidding. Management has represented to us that the reason that this contract was not subject to competitive bidding was due to a pressing emergency to meet a contractual deadline.</p>
3	For each contract valued at over \$25,000 in 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, we found that the different amounts were to accommodate an increase of 1% in the sales tax rate of [jurisdiction] that was effective in September 20X8.</p>

We engaged an external procurement officer to assist us in performing procedure 2. The engagement of the procurement officer to assist us in the performance of this procedure does not reduce our responsibility for the engagement.

This agreed-upon procedures engagement does not constitute a reasonable or limited assurance engagement. Accordingly, we do not express any opinion or conclusion on the procurement of [xyz] products by [Engaging Party].

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

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. This report is intended solely for [Engaging Party] and [Intended Users], and should not be distributed to any other parties.

[Practitioner’s signature]

[Date of practitioner’s report]

[Practitioner’s address]

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