

The Chairman  
Australian Auditing and Assurance Standards Board  
PO Box 204  
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MELBOURNE VIC 8007

17 April 2020

Dear Roger

Exposure Draft ED 01/20 Proposed Standard on Related Services ASRS 4400 Agreed Upon Procedures ("ED 01/20")

Ernst & Young welcomes the opportunity to offer its views on the Exposure Draft of proposed Standard on Related Services ASRS 4400 Agreed-Upon Procedures Engagements issued by the Australian Auditing and Assurance Standards Board (AUASB). Please find below our responses to the specific questions raised by the AUASB.

#### Independence – Requirement

1. Do stakeholders support ED 01/20 not requiring independence for an AUP engagement? If not, why not?
2. Would stakeholders prefer to maintain the approach in extant ASRS 4400 whereby there is an independence requirement for the practitioner equivalent to the independence requirement applicable to 'other assurance engagements', unless the engaging party has explicitly agreed to modified independence requirements?
3. Are there any other independence pre-condition options that stakeholders would suggest to the AUASB that are not covered by questions 1 and 2 above? Please provide details.
4. If stakeholders do not support ED 01/20 not requiring independence for an AUP engagement, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?

We agree with there not being a precondition for the practitioner to be independent when performing Agreed Upon Procedures (AUP) engagements.

Notwithstanding the fact that independence may not be required by the relevant ethical requirements, we agree that the practitioner's independence may be required or expected as a term of the engagement.

We do not see a need to maintain the approach in extant ASRS 4400. We believe that the independence approach adopted in ED 01/20 reflects the spectrum of AUP engagements whereby some but not all scenarios warrant the practitioner to be independent.

There are no other independence pre-condition options that are not covered by questions 1 and 2 above.

Independence – Reporting Requirements:

5. Do stakeholders support ED 01/20 with the AUP report including statements addressing circumstances when the practitioner is or is not required to be independent? If not, why not?
6. If stakeholders support maintaining the approach adopted in extant ASRS 4400 in relation to independence (as outlined in question 2 above), do stakeholders support maintaining the approach in extant ASRS 4400 whereby the report is required to contain a statement that either ethical requirements equivalent to those applicable to Other Assurance Engagements have been complied with, including independence, or, if modified independence requirements have been agreed in the terms of the engagement, a description of the level of independence applied?
7. Are there any other independence reporting options that are not covered by questions 5 and 6 above? Please provide details.
8. If stakeholders do not support ED 01/20 with the AUP report required to include statements addressing circumstances when the practitioner is or is not required to be independent, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?

When the practitioner is independent, we are supportive of the new requirement for the practitioner to include a statement in the AUP report asserting their independence and the basis thereof. We strongly believe that independence should not be asserted without also including the underlying basis, as the basis may vary depending on the relevant ethical requirements in the jurisdiction or the terms of the engagement.

When independence is not required by the relevant ethical requirements or by the terms of the AUP engagement, we agree that the practitioner should not be required to make an independence determination and are supportive of the new requirement for the practitioner to include in the AUP report a statement that there are no independence requirements with which the practitioner is required to comply. We have this view not only because of the complexity that may be involved in making a determination of independence, but also because, in these circumstances, the independence requirements that the practitioner is to measure their independence against may not be known or defined.

In particular, the APES 110 Code of Ethics does not define independence in the context of an AUP engagement. Accordingly, when the APES 110 Code of Ethics comprises the relevant ethical requirements for an AUP engagement, we do not believe that it would be appropriate for the practitioner to be required or otherwise expected to make an independence determination.

There are no other independence reporting options that are not covered by questions 5 and 6.

Restriction on use:

9. Do stakeholders support ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed, but rather the report containing a statement identifying the purpose of the report and that the report may not be suitable for another purpose? If not, why not?
10. Would stakeholders prefer to maintain the approach in extant ASRS 4400 whereby the use of an AUP report is restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as users in the engagement letter. Under ASRS 4400, a restriction on use paragraph is required to be included in an AUP report.
11. Are there any other restriction on use options that stakeholders would suggest to the AUASB that are not covered by questions 9 and 10 above? Please provide details.
12. If stakeholders do not support ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?

We agree with the removal of the requirement to restrict the report and to leave the determination as to whether restrictions are necessary to the practitioner, after considering the facts and circumstances of the engagement. We also believe that the application material in paragraph A54 is useful to assist the practitioner in making this determination. We do not see a requirement to maintain the approach exactly as is in extant ASRS 4400 as the outcome of the approach in ED 01/20 aligns to that in extant ASRS 4400 and to the extent possible we should harmonise with the current International Standard on Related Services ISRS 4400.

There are no other restriction on use options that are not covered by questions 9 and 10 above.

Professional judgement:

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

No, we do not believe that the definition of professional judgement or the discrete requirement to apply professional judgement appropriately reflects the role professional judgement plays in an AUP engagement.

The execution of procedures in an AUP engagement should not involve professional judgement. We believe that including a definition, as well as a requirement to apply professional judgement in “conducting an agreed upon procedures engagement”, has the unintended consequence of conveying the exact opposite (i.e. that professional judgement is required in performing the procedures). We therefore believe that both the definition of professional judgement and the requirement in paragraph 18 should be removed from ED 01/20.

We however agree that professional judgement is applied in various aspects of an AUP engagement. In particular, professional judgement can be critical to engagement acceptance decisions (i.e., to make the judgements required by paragraph 21 and 22(c) of ED 01/20). We also agree with the other examples in paragraph A22 of when professional judgement may play a role. Instead, our

disagreement is with the approach taken to require the application of professional judgement holistically for the entire engagement. The meaning of the qualifier of “taking into account the circumstances of the engagement” is not clear and likely subject to misinterpretation. We believe a better approach, which would be less prone to the unintended consequences we have described, is to specifically emphasise the role of professional judgement in the application material where its application is of most relevance and importance.

We also note the following, as requested:

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

As far as we can see, applicable laws and regulations have been appropriately addressed in the proposal standard. We are not aware of any references to relevant laws or regulations that have been omitted.

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

We are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard.

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

We are not aware of any principles and practices considered appropriate in maintaining or improving quality of related services engagements in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard.

17. What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:
  - a. Where those costs are likely to occur;
  - b. The estimated extent of costs, in percentage terms (relative to related services fee); and
  - c. Whether expected costs outweigh the benefits to the users of related services?

We do not believe that there are any additional significant costs to/ benefits for assurance practitioners and the business community arising from compliance with the requirements of this proposed standard.

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

We have no other significant public interest matters that we would like to raise in relation to the proposed standard.

We welcome the opportunity to contribute to the improvement of Auditing and Assurance Standards that will continue to drive the quality and consistency of such services in Australia. We would be pleased to discuss our comments with members of the Auditing and Assurance Standards Board and its staff. Should you wish to do so, please contact Chris George ([christopher.george@au.ey.com](mailto:christopher.george@au.ey.com)) or on 0419 206 323.

Yours sincerely



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