



**The Japanese Institute of  
Certified Public Accountants**

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March 29, 2017  
Mr. Matthew Waldron  
Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 5th Avenue, 6th Floor  
New York, NY 10017 USA

Dear Ms. Waldron,

Re: JICPA Response to Discussion Paper,  
*Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services,  
and the Implications for IAASB's International Standards*

Japanese Institute of Certified Public Accountants (hereunder referred to as "JICPA") would like to express our sincere appreciation for the opportunities granted to respond to the discussion paper by the IAASB "Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards (hereunder referred to as the 'DP')". Situations discussed in the section "Why Is the IAASB Undertaking Work on AUP Engagements?" of the DP are quite relevant in Japan, and we agree with your undertaking of the task (revision of the International Standard on Related Services 4400 (hereunder referred to as "ISRS4400")). Also in Japan, we examined the overall issues concerned with the Agreed-Upon Procedures (AUP). As a result of a careful examination that continued over a year, we established the Professional Guidelines 4400 "Practical Guidelines on the Agreed-Upon Procedures" (hereunder referred to as the "Professional Guidelines 4400") in April 2016, as guidance to the AUP engagement, and they will be applied from April 1, 2018. Professional Guidelines 4400, while being based on the existing ISRS4400, was developed including those matters recognized complementary to the current ISRS4400 during the process of its examination.

Therefore, the Professional Guidelines 4400 was established in reference to the ISRS4400, and we request that you proceed with the undertaking in accordance with the Work Plan since a revision of the ISRS4400 will have a significant effect on the AUP engagement in Japan.

Hereinafter, please find JICPA's comments to the DP.

**The Role of Professional Judgment and Professional Skepticism in an AUP Engagement**

Q1. Results from the Working Group's outreach indicate that many stakeholders are of the view that professional judgment has a role in an AUP engagement, particularly in the context of performing the AUP engagement with professional competence and due care. However, the procedures in an AUP engagement should result in objectively verifiable factual findings and not subjective opinions or conclusions. Is this consistent with your views on the role of professional judgment in an AUP engagement? If not, what are your views on the role of professional judgment in an AUP engagement?

(Comment)

Our views are consistent with those of the Working Group. Professional judgment is in particular exercised in the process of accepting a new engagement contract or renewal of the contract (at the

phase of procedures development to be implemented and agreement thereof). In addition, professional judgment will be required when a situation arises that indicates the possibility of not being able to achieve the objectives set forth in the AUP engagement such as the situation that requires change(s) to the engagement contract or review of the agreed procedures during the process of planning, implementation, or reporting.

Meanwhile, an ideal manner of the professional judgment in the AUP engagement stems from the nature of undertaking, and it is understood that the practitioner is not responsible for the sufficiency of the agreed procedures. However, since the current ISRS4400 has not clearly articulated on this point, there is a concern that a misunderstanding may happen that not only clients but also practitioners have to bear the responsibility concerning the sufficiency of the procedures. It is desirable to clearly articulate the party responsible for making decision on the procedures and then to demonstrate the instances where the practitioner is expected to exercise his/her professional judgment. In this regard, the Professional Guidelines 4400 stipulates that the clients are solely responsible for making decision on the procedures.

Q2. Should revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?

(Comment)

We believe it is not necessary to include such requirements. Once included in the ISRS 4400 requirements, it may cause a rigid and wrong application in exercising the professional judgment. Therefore, we believe it is more appropriate to give an exposition in the introduction.

### **The Independence of the Professional Accountant**

Q3. What are your views regarding practitioner independence for AUP engagements? Would your views change if the AUP report is restricted to specific users?

(Comment)

Considering the nature of engagements that do not provide conclusions or assurances, we believe it is unnecessary to require independence. Because such view originates from the characteristics of engagements that do not provide conclusions or assurances, restriction of the AUP report to specific users will not change our views.

Furthermore, although independence is not required in the Professional Guidelines 4400, it seeks that a practitioner declares his/her independence in the AUP report in an instance where such practitioner has agreed to perform the AUP engagement in compliance with the independence requirements.

### **Terminology in Describing Procedures and Reporting Factual Findings in an AUP Report**

Q4. What are your views regarding a prohibition on unclear or misleading terminology with related guidance about what unclear or misleading terminology means? Would your views change if the AUP report is restricted to specific users?

(Comment)

We agree with the prohibition on unclear or misleading terminology. We do not view this prohibition should change by the restriction of AUP report to specific users. In addition, we believe that the

provision of application guidance and the supplement on what constitutes unclear or misleading terminology will be valuable.

In the Professional Guidelines 4400, both appropriate examples and inappropriate examples are listed in reporting the procedure outcomes, prescribing the prohibition provision not to apply misleading terminology that may be mistaken for assurance engagement; for example, “sufficient,” “appropriate,” and “we certify.”

### **AUP Engagements on Non-Financial Information**

Q5. What are your views regarding clarifying that the scope of ISRS 4400 includes non-financial information, and developing pre-conditions relating to competence to undertake an AUP engagement on non-financial information?

(Comment)

We concur with your view that clarifying that the scope of ISRS 4400 includes non-financial information would address market demand. However, regardless of the financial information or non-financial information, the procedures should be developed on the assumption that the relevant practitioner has sufficient professional competence area to accept the responsibility in performing the AUP engagement in the subject matter.

Q6. Are there any other matters that should be considered if the scope is clarified to include non-financial information?

(Comment)

Where non-financial information is to be included in the scope of AUP engagement pursuant to the ISRS4400, since non-financial information unlike financial information is not necessarily quantifiable or visible, in our view, it should be stipulated in the application guidance to the effect that the provision of the non-financial information may be required in a quantifiable or visible manner in performing the engagement (specially at the phase of planning and implementation of the procedures) in order to produce an objective and appropriate AUP report.

Separately, concerning the description “provided ... reasonable criteria exist on which to base findings” in the section 30 of the DP, the said “criteria” supposedly indicate such criteria as to measure and evaluate the central subject. However, given the fact that the practitioner is not required to provide a conclusion but is required to provide a report on factual findings in the AUP engagement, such practitioner should not be sought to make judgment based on the criteria. Because the term “criteria” is associated with assurance engagement, we are of the view that the term “criteria” should not be used when investigating the standards for AUP engagement in light of the nature of engagement in which the practitioner does not provide a conclusion or assurance.

### **Using the Work of an Expert**

Q7. Do you agree with the Working Group’s views that ISRS 4400 should be enhanced, as explained above, for the use of experts in AUP engagements? Why or why not?

(Comment)

We agree with the Working Group’s view because it is anticipated that in some AUP engagements, practitioners may use the work of an expert.

### **Format of the AUP Report**

Q8. What are your views regarding the Working Group's suggestions for improvements to the illustrative AUP report?  
We would be particularly interested in receiving Illustrative reports that you believe communicate factual findings well.

(Comment)

We agree with the Working Group's suggestion to improve illustrative AUP report to make it more flexible. However, it will suffice to state that a tabular format or appendix can be applied because illustrative examples will not be able to cover every situation.

### **AUP Report Restrictions**

Q9. Do you agree that the AUP report can be provided to a party that is not a signatory to the engagement letter as long as the party has a clear understanding of the AUP and the conditions of the engagement? If not, what are your views?

(Comment)

We agree that the AUP report can be provided to a party that is not a signatory to the engagement letter as long as such party has a clear understanding of the AUP and the conditions of the engagement. Moreover, we believe that such instances as described in the section 41 of the DP where it is judged that the relevant party has a clear understanding of the AUP and the conditions of the engagement should be presented in the application guidance. Besides, the Professional Guidelines 4400 demonstrates that the representation be obtained from the party who is not a signatory to the engagement letter that such party has a clear understanding of the AUP and the conditions of the engagement.

Q10. In your view, which of the three approaches described in paragraph 44 is the most appropriate (and which ones are not appropriate)? Please explain.

(Comment)

We are of the view that the approach Paragraph 44(a) is most appropriate. We believe that the approach (b) is inappropriate due to the concern that the AUP report may be misused without properly understanding the nature of the AUP of reporting the factual findings in the environment where it is hard to say that the AUP engagement is sufficiently recognized socially. In an instance where the AUP report needs to be utilized by numerous parties, the approach (c) is practical in which restriction is practically imposed on its use by clearly specifying the purposes of engagement but not on its distribution, and that approach is worth investigating. However, adoption of the approach (c) will require the provision of proper guidance such as providing the instances requiring the restrictions on distribution in order to reduce the possibility of misinterpretation of the AUP report by the users.

Q11. Are there any other approaches that the Working Group should consider?

(Comment)

We do not have any specific comments.

### **Recommendations Made in Conjunction with AUP Engagements**

Q12. Do you agree with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings? Why or why not?

(Comment)

We agree with the Working Group's view. Because the recommendation may be based on judgments, etc. separate from factual findings, given the characteristics of AUP engagement, recommendation should be clearly differentiated from the factual findings.

Q13. Are there any other areas in ISRS 4400 that need to be improved to clarify the value and limitations of an AUP engagement? If so, please specify the area(s) and your views as to how it can be improved.

(Comment)

We believe that the following areas need to be examined for the improvement in the ISRS4400 revision project.

- Characteristics of the AUP engagement (definition of the terms such as client, practitioner, user of the report, etc. including the ensuing responsibility of each).
- Clarification of the responsibility concerned with sufficiency of the procedures (including the clear statement to the effect that the client is solely responsible).
- Matters pertinent to the communication with the user of AUP report who is not a signatory to the engagement letter to have a clear understanding of the AUP and the conditions of the engagement.
- Matters pertinent to the engagement pursuant to the law or regulation and understanding the pre-conditions of such engagement.
- Provisions when an inconsistency is discovered between the AUP outcomes and information coming into the practitioner's possession during performing the engagement.
- Provisions when a part of the procedures is not performed despite being agreed upon to perform such procedures.
- Matters pertinent to the investigation and judgment regarding whether or not to obtain the confirmation from the person responsible for the information concerned with the undertaken engagement as well as the matters pertinent to the quality control procedures in relation to the application of ISQC1 (e.g., matters regarding the selection of engagement team and safekeeping of the work files).
- Utilization of works by other practitioners.
- Application guidance and appendixes in relation to describing the procedures and outcomes of the procedures. (Illustration of unclear or misleading terminology, matters concerning the sampling and application of analytical procedures.)
- Examples of the AUP report and representation letter.

Besides, there seems an institutional request to disclose the fact that the AUP engagement is being performed without seeking the disclosure of such AUP report itself. However, disclosure of the fact that the AUP engagement is being performed alone may be highly likely to cause misunderstanding by the users of such information on the content and characteristics of the engagement. Concerning these cases, in order to reduce an occurrence of misinterpretation, we should investigate if it is necessary to recommend certain measures such as reading the AUP report after the consultation with the client. Since such an institutional request is seen not only in the AUP engagement but also in the

assurance engagement such as audit, this matter may be better to deal by other non-authoritative guidance independent from the ISRS4400.

### **Multi-scope Engagements**

Q14. What are your views as to whether the IAASB needs to address multi-scope engagements, and how should this be done? For example, would non-authoritative guidance be useful in light of the emerging use of these types of engagements?

(Comment)

Issues concerning the multi-scope engagements cover a wide dimension ranging from the AUP engagement to assurance engagement and consulting business. Therefore, we are of the view that non-authoritative guidance would be a proper tool to deal with, and that the issues concerning the multi-scope engagements should be discussed, separately from the ISRS4400 revision project.

Q15. Do you agree with the Working Group's view that it should address issues within AUP engagements before it addresses multi-scope engagements?

(Comment)

We agree with the Working Group's view.

Sincerely yours,

Masahiko Tezuka

Executive Board Member – Auditing, Assurance Practice and IT

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