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Dear Sir or Madame,

**European Federation of Accountants and Auditors for SMEs (EFAA) Response to the Discussion Paper,  
Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the  
Implications for the IAASB's International Standards**

The European Federation of Accountants and Auditors for SMEs ("EFAA") represents accountants and auditors providing professional services primarily to small and medium-sized entities ("SMEs") both within the European Union and Europe as a whole. Constituents are mainly small practitioners ("SMPs"), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs. EFAA represents 17 national accounting, auditing and tax advisor organisations with more than 370,000 individual members.

EFAA has become increasingly concerned about the preparedness of the global accountancy profession, especially SMPs, in the face of rapid changes in business and society. Hence, we have made digitalisation a key focus area, and will hold an international conference on this topic in June.

EFAA commends the IAASB on the consultation exploring the demand for agreed-upon procedures (AUP) engagements and other services, and the implications for the IAASB's International Standards, and is pleased to provide its comments, which have been prepared with input from our Assurance Expert Group (formerly, Audit Expert Group). The Discussion Paper is a comprehensive and well-articulated document. Given the stage of the project, we have concentrated our response on some general observations. We look forward to providing more in-depth input as the project progresses.

## **General Observations**

We live in a time when there is an increasing deficit of trust by citizens – in government, in the media, in business, in markets. The [Edelman 2017 Trust Barometer](#) is ample evidence of the scale and significance of this deficit. Accountants, as providers of services that build credibility and trust, primarily in published financial information, therefore have a great opportunity – to offer services that build trust and confidence in financial and non-financial information.

This consultation is central to the IAASB's [current work plan](#) which rightly recognizes the importance of addressing the concerns of small- and medium-sized practices (SMPs), including considering how auditing standards can be effectively applied to audits of small- and medium-sized entities, and standards to support other services provided by SMPs. Of course, SMPs increasingly provide advisory services, services which are a private matter between the practice and client and which might best never be the subject of an IAASB standard but which do drive business performance and can foster trust.

We stress this is a win-win – for the profession, especially accountants in practice, as it builds demand for its services and expertise, and for business, society and the public interest that gain from greater trust. Last year the IFAC SMP Committee [issued a brochure](#) that clearly and concisely explains in layman's terms the various offerings from audit through to AUP and a committee member has [previously explained](#) the value of SMPs growing their practice through AUP engagements.

We see that there is considerable potential for growth in the market for AUP engagements and other services but suspect that for potential to be realized there may need to be revised and / or new standards and guidance. AUP are valued because they can be tailored to address specific needs in a targeted manner and therefore may be more effective than an audit or review for some purposes. These points we stress in an article published on the IFAC Global Knowledge Gateway [here](#).

AUP engagements are becoming increasingly common in many jurisdictions and mandatory engagements are emerging. As AUP engagements are typically not subject to legal provisions ISRS 4400 is in effect flexible guidance that has the potential to fit a wide variety of engagements. Therefore, it is vital we have a modern standard that meets contemporary stakeholder needs. This demands that the standard's flexibility be retained and its scope and usability expanded and enhanced.

## Specific Questions

### 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?

*We support the view of the AUP Working Group on the role of professional judgement in an AUP engagement.*

*While the performance of the procedures agreed-upon to obtain evidence as the basis for the AUP report do not require the exercise of professional judgement, professional judgment is or may be required as follows:*

- *to determine whether the engagement is appropriate;*
- *to defining the terms of the engagement (especially the identification of the financial information to which the agreed-upon procedures will be applied and the determination of the nature, timing and extent of the specific procedures; ISRS 4400.9);*
- *to assist users in determining appropriate procedures to achieve the users' objectives;*
- *to plan the engagement (ISRS 4400.13);*
- *to determine the level of adequate documentation (ISRS 4400.14); and*
- *to determine whether findings are to be reported.*

*In addition, during the conduct of the engagement the practitioner may encounter situations that demand their professional judgement for example, when the professional comes across an indication of (potential) non-compliance with laws and regulations (NOCLAR) or when the practitioner uncovers deficiencies in the client's internal controls system.*

*The need for professional judgement may also depend upon whether the engagement is one that is agreed directly between an entity and a practitioner, where the user is the entity, or is stipulated by regulation, which requires an entity to obtain a report from a practitioner as prescribed by the regulation. In the former type of AUP the practitioner has more control over the procedures that are performed. Hence, the Working*

*Group may need to differentiate between these two types of AUP. Furthermore, the Working Group may wish to consider if and how to accommodate those AUP style engagements, common in some jurisdictions, whereby only the nature of the procedures is agreed leaving the practitioner to apply professional judgement in determining the timing and extent of those procedures. For these types of engagement, the practitioner's report should clearly describe the nature, timing and extent of the procedures performed so that the users are sufficiently well-informed to draw their own conclusions from the findings.*

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

*As we explain in our response to Q1 above, while professional judgement cannot be required for the actual performance of the procedures so long as the factual findings are to be reported, we do concur with the Working Group's proposal of an introductory paragraph along the lines suggested. However, this should only include a requirement for the exercise of professional judgment in relation to the matters stated above. We also see little value, and possibly unintended negative consequences, of further explanation.*

*We support the Working Group monitoring the project on professional skepticism. While the present definition of professional skepticism means that it cannot be exercised in an AUP engagement, if the project on professional skepticism were to change the definition and general applicability of professional skepticism then this might impact AUP engagements.*

### **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?

*We support the present position and agree with the Working Group that the existing approach in ISRS 4400, which requires a statement in the report of factual findings where the practitioner is not independent, strikes the right balance.*

*In our view, objectivity for all AUP engagements is necessary, but independence is not required. Practitioners do not have flexibility when reporting factual findings, so whether they are independent or not should not impact the reporting of the facts.*

*We recognize that while the practitioner is not expressing an opinion or conclusion on the AUP engagement the AUP are intended to increase credibility and trust in the underlying financial or non-financial information*

*on which external parties rely. Accordingly, one could argue that any threat to the appearance of independence of the practitioner impairs the benefit and the trustworthiness of the performed 'procedures of an audit nature' (ISRS 4400.4). However, we are more persuaded by the counter argument that SMEs typically place their trust in the competence and integrity of SMPs and that the appearance of independence is not especially important to them. Moreover, an independence requirement may also mean that those best placed to perform a high quality AUP engagement are barred from doing so.*

*We do not believe that whether a report is restricted or not is relevant in determining whether independence is required. However, the Working Group might wish to explore the merits of leaving it for the intended users to decide.*

#### **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 mean? Would your views change if the AUP report is restricted?

*We welcome in principle a prohibition on unclear or misleading terminology in AUP reports. Indeed, the IESBA Code of Ethics for Professional Accountants prohibits professional accountants from being associated with misleading information.*

*That said, the practical implementation of such a prohibition as well as the creation of useful guidance looks impractical for various reasons: terminology regarded as unclear or misleading will need to be from a user's perspective; assumptions will need to be made as to an appropriate level of user skill and experience; the circumstances of the individual engagement will need to be taken into account; and non-native English speakers will face the challenge of translation and the risk of translation inaccuracies. Moreover, it is the responsibility of the engagement client and others that legitimately receive the report, to demand clear and unmistakable terminology in the AUP report irrespective of whether a report is restricted or not. This demands educating users and those who request the procedures about the nature of AUP engagements and the appropriate terminology that should be used.*

*The Working Group may wish to consider whether to require, as is practice in some jurisdictions, to report explicitly that the report does not mean to apply to the subject of the engagement in total. For example, factual findings on the examined part of management remuneration is not supposed to conclude on all*

*management remuneration.*

### **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?

*We support clarifying the scope to cover non-financial information (NFI).*

*We do note that the proposed amendment of ISRS 4400 (note 31) does not seem to supplement the guidance in the current ISRS 4400.2 and in any case the proposed amendments appear to already be covered by ISRS 4400.7 (c). However, we suspect many practitioners do not realize that its scope already extends to NFI and believe there is great potential for growth in the numbers of AUP engagements on many different types of NFI. Increasingly NFI is being used, and considered as important as financial information, to help determining the performance, position and prospects of businesses as well as how well they are governed and manage their risks. Hence, we encourage placing greater emphasis on the potential to apply ISRS 4400 to NFI and suggest this will demand prominent clarification in a revised ISRS 4400.*

*ISRS 4400 should address the need for practitioners to consider whether they have the competence to perform AUP engagements on NFI, including recourse to experts where an AUP engagement involves subject matter over which the practitioner has limited technical expertise.*

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

*No comment.*

### **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?

*We agree.*

*The prerequisites for involving an expert need to match the general requirements for performing AUP engagements.*

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

Q8. What are your views regarding the Working Group's suggestions for improvements to the illustrative AUP report? [that is, a report that presents the procedures and corresponding findings in a tabular format, or one that presents each procedure and corresponding finding together, vs. the existing illustrative report which simply lists procedures followed by findings]

We would be particularly interested in receiving illustrative reports that you believe communicate factual findings well.

*We agree with the suggested improvements.*

*We support any reasonable attempt to improve existing guidance. Given that AUP engagements are widely used and applied for various purposes it will be difficult to create comprehensive broadly applicable guidance. Nevertheless, it is important to emphasize that the illustrative AUP report is purely illustrative and can and should be modified to meet the specific requirements of the engagement in question. That said, practitioners are often reluctant to deviate from sample wordings or guidance provided by a standard setter. The illustrative report should also include an example statement to be used when the practitioner is not independent.*

### **AUP Report Restrictions – To Whom the AUP Report Should be Restricted**

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?

*We agree in principle.*

*However, AUP report restrictions need to be considered in the context of legislation and jurisdiction (especially liability regime and general terms and conditions) at the national level. For example, in some jurisdictions the report is restricted to intended users except perhaps when the government or regulator are either client or intended users or submission can be demanded by and to certain applicants. An AUP report that is suited for private purpose may not be suitable for public dissemination. As a minimum, the report may need to include a statement that it is not intended for public dissemination.*

### **AUP Report Restrictions – Three Possible Approaches to Restricting the AUP Report**

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.

*We believe in principle that the most appropriate approach is that of allowing the AUP report to be provided to a party that is not a signatory to the engagement letter so long as the party has a clear understanding of the AUP and the conditions of the engagement.*

*However, please see our response to Q9 above.*

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

*No comment.*

### **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?

*We agree.*

*We suspect that clients may request that the practitioner provide recommendations in addition to the performance of AUP. Indeed, we hope that clients will value such recommendations and that this will drive demand for AUP engagements by professional accountants. Recommendations, however, will typically require professional judgement, based partly or wholly on the factual findings, and so alter the scope of the engagement, resulting in 'hybrid engagements'. Hence, it is important that the recommendations be clearly distinguished from the procedures and factual findings.*

### **Other Issues relating to ISRS 4400**

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.

*No comment.*



### **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?

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

*We agree.*

*Issues within AUP engagements should be addressed with high priority. Nevertheless multi-scope engagements are an important issue to cover. Due to the complexity of arising questions (e.g. combination of different kinds of confirmation / assurance, interrelation of findings, form of the report) it seems better to address these engagements in non-binding guidance.*

I trust that the above is comprehensive but should you have any questions, please contact me any time.

Yours faithfully,



Bodo Richardt

President