

International Auditing and Assurance Standards Board (IAASB)  
529 Fifth Avenue - 6th Floor  
New York, New York  
10017

29 March 2017

Dear Sirs

**Discussion Paper November 2016 – Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB’s International Standards.**

PKF International Limited administers the PKF network of legally independent member firms. The PKF International network consists of member firms and correspondents in 393 locations operating in 150 countries providing assurance, accounting and business advisory services. PKF International Limited is a member of the Forum of Firms - an organisation dedicated to consistent and high quality standards of financial reporting and auditing practices worldwide. This letter represents the observations of PKF International Limited, but not necessarily the views of any specific member firm or individual.


We welcome the opportunity to comment on the IAASB’s Discussion Paper– Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB’s International Standards. We are supportive of the IAASB and the AUP Working Group’s continued efforts to improve the IAASB’s International Standards.

Our responses are appended to this letter in terms of the stakeholder input and perspectives questions provided by the IAASB and AUP Working Group.

Of importance, while we appreciate the observations around the need for the IAASB to consider multi-scope engagement guidance, but urge the IAASB not to delay revisions to the existing ISRS 4400 in order to accommodate multi-scope arrangements. The Working Group’s outreach confirmed that the demand for AUP engagements continues to grow and clarity provided by the revision is long overdue.

If you would like to discuss any of our comments, do not hesitate to contact me.

Yours sincerely



**Theo Vermaak**

Chairman: International Professional Standards Committee  
PKF International Limited

## Overview of Questions for Stakeholder Input

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

- 1) 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?

Yes, we agree with the view that professional judgement has a role in an AUP engagement.

Although the procedures are specified precisely, the practitioner does not suspend professional judgment and professional skepticism when performing an AUP engagement, for reasons stated in the Discussion Paper.

The procedures in an AUP engagement are to result in objectively verifiable factual findings, but the nature and extent of the evidence gathered that is needed to present these findings is subjected to the practitioner's judgement, especially when the practitioner is only provided with objectives or outcomes. This is further discussed in the next question.

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

Yes, ISRS 4400 should include requirements relating to professional judgement, including professional skepticism.

Professional judgment is necessary, particularly with regard to decisions on:

- *Nature, timing and extent*: With reference to *ISRS 4400, paragraph 9, "nature, timing and extent of specific procedures"*. The practitioner's work should be planned so as to enable the agreed upon procedures to be conducted in an efficient and timely manner. Plans should be based on an understanding of the client's business and revised as necessary during the course of the engagement.
- *Measuring the quality, relevance and credibility of "evidence", to form conclusions for the AUP report*. The quantity and quality of evidence obtained is assessed using professional judgement. AUP evidence includes information contained in the accounting records, the underlying financial statements, and other information obtained from management. To assess if sufficient appropriate evidence was obtained and whether more needs to be done to achieve the objectives of ISRS 4400 and, therefore, the overall objectives, the practitioner must use professional judgment.

We don't believe that there are inherently any unintended consequences in addressing professional judgement.

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

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

Although we encourage practitioner independence in all engagement we do not see this as a critical requirement when accepting an AUP engagement. Being objective is critical.

We believe that independence should be dealt with in the IESBA Code of Ethics. References from this Standard to the ethical requirements of the Code should be sufficient and will prevent unnecessary duplication and conflicting requirements.

Our view does not change if the AUP report is restricted to specific users.

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

- 4) 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?

We recommend that the revised Standard prohibit the use of unclear or misleading terminology in the AUP report, but do so largely in a non-prescriptive / principles-based manner. It should further specifically discourage the use of assurance or opinion related terms such as “review”, “concluded” and “reasonable”.

Even to the extent that the AUP report is restricted to specific users, unless otherwise impracticable to do so, the report should not contain unclear or misleading terminology. As described in the WG's Discussion Paper, including guidance in the form of examples of such unclear or misleading terminology would be useful.

Where unclear or misleading terminology is required by law or regulation, these terms could be clearly defined in the AUP report so as to eliminate any misunderstanding.

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

- 5) 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 the scope extension to include non-financial information. However, in developing pre-conditions relating to competence to undertake an AUP engagement on non-financial information, it would unnecessary duplicate the ISQC 1, paragraph 20 and A7, professional competence and due care requirements, in having adequate knowledge of the subject matter, as a fundamental principle of professional ethics.

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

In considering other matters to be considered by the WG, we note the following:

- Guidance on how to treat evidence that is non-verifiable in relation to the non-financial information or where such information is internally prepared and is considerably subjective.

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

- 7) 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 do agree with the WG's view that revised ISRS 4400 should be enhanced for the use of experts in an AUP engagement as suggested, and the view that the practitioner should evaluate the expert's competence and objectivity.

Any delegation of work to experts or others should be in a manner that provides reasonable assurance that such work will be performed by persons who have the skills and competence required in the circumstances.

In considering other matters to be considered by the WG, we note the following:

- As the expert forms part of the engagement team, the revised ISRS 4400 should ensure that confidentiality requirements of the IESBA are also applicable.
- Guidance on the extent of disclosure of the expert's details and involvement in the AUP report.
- Would the expert be a signatory to either the engagement letter or the report, given that these are "factual findings"?

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

- 8) 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.

We welcome the suggested improvements and re-emphasise that the report on an AUP engagement needs to describe the purpose and procedures and the results of the procedures in sufficient detail to enable the reader to clearly understand the nature and the extent of the work performed. The report must make sense.

In our view, we suggest the following matters for the WG's consideration:

- a statement (when applicable) that the practitioner is objective and not necessarily independent of the entity;

- a statement (when applicable) that the practitioner is not responsible for making recommendations to address any errors and exceptions identified and that remedial action is the responsibility of the preparer of the subject matter and information.

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

- 9) 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?

Yes, if the appropriate disclaimer is used in the AUP report.

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

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

In evaluating the three possible approaches to restricting the AUP report, we have considered and noted the following in each regard:

1. *Specified parties with restricted distribution* - This may prove impractical for 2 reasons:
  - (i) It may be difficult to identify all the specific users at the inception of the engagement.
  - (ii) The practitioner will have to ensure that the entity has a process of monitoring distribution, including electronic distribution, of the report to the specified parties.This is a less preferred option.

2. *Neither require nor preclude the practitioner from including restrictions on the AUP report (voluntary agreement)* – A voluntary approach reduces the extent of consistency in reporting. Further, in the absence of a mandated approach, practitioners may find it more difficult to restrict the use of the report. We do not support this option.

3. *General restriction* - In our view, the third approach is most appropriate. As alluded to in the Discussion Paper, it achieves an appropriate balance in mitigating the risk of those who have not agreed to the engagement procedures and allowing flexibility to meet legal or regulatory requirements especially if such report is posted online or when management is unable to restrict distribution.

In addition, the practitioner should:

- endeavour to restrict the distribution to the direct recipients;
- report findings or matters to an appropriate regulatory body if required by any law or regulation on non-compliance with laws and regulations regardless of any such restriction.

- 11) Are there any other approaches that the Working Group should consider?

None to note

## Recommendations Made in Conjunction with AUP Engagements

- 12) 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?

Yes, unless the scope of the AUP engagement requires recommendations to factual findings in a single report.

Our reasons to clearly distinguish recommendations from the procedures and factual findings are as follows:

- Potential for misinterpretation or misunderstanding of recommendations in an AUP report especially where recommendations may have not resulted from a specific finding;
- Allows the practitioner to provide value adding recommendations that is as a by-product of the engagement.

In consideration of the foregoing, the use of management report should be restricted to the specified parties only.

We encourage the WG to provide non-authoritative guidance of reporting templates that include recommendations and more particularly on how the practitioner would structure the report.

## Other Issues relating to ISRS 4400

- 13) 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.

In our view, the following areas are noted for the WG's consideration:

- Guidance on the concept of sampling – As sampling is an assurance concept and AUP are “procedures of an audit nature”, AUP engagements may permit the practitioner to determine a sufficient sample for testing, on a basis agreed with the client. How will the revised ISRS 4400 address the concept of sampling?
- In the Discussion Paper the following foot note is included as Footnote 19: “However, quantitative thresholds for determining factual deviations may be set.” Will the revised Standard provide guidance on what would be acceptable as quantitative thresholds and will quantitative thresholds used require disclosure in the report?
- When required by law or regulation, reportable matters, such as fraud or any illegal act, have to be reported to a regulator or other specified body. Will the revised ISRS 4400 provide guidance on how the practitioner should treat this when reporting?
- With reference to ISRS 4400, paragraph 9, will 3<sup>rd</sup> parties (specific users identified) also be signatories to the engagement letter? How else is their agreement to the procedures evidenced?

## Multi-Scope Engagements

- 14) 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?

We agree that the IAASB will need to address the use of multi-scope engagements, and that non-authoritative guidance will be useful.

- 15) Do you agree with the Working Group's view that it should address issues within AUP engagements before it addresses multi-scope engagements? Suggestions regarding the nature of guidance on multi-scope engagements you think would be helpful and any examples of multi-scope engagements of which you are aware will be welcome and will help to inform further deliberations.

Yes, we agree with the WG's view to address issues within AUP engagements before it addresses multi-scope engagements.

The following are issues that the WG could consider addressing in the guidance for multi-scope engagements:

- Re-enforcing the use of appropriate engagement letters to achieve clarity on scope;
- Re-enforcing the use of appropriate management representation letters for each scope;
- Address the use of professional judgement when performing multi-scope engagements;
- Guidance on the use of separate and combined scope reporting.

## Glossary of terms

AUP	Agreed Upon Procedures
ISRS	International Standard on Related Services
IAASB	International Auditing and Assurance Standards Board
WG	Working Group
ISA	International Standards on Auditing
ISQC	International Standard on Quality Control
IESBA	International Ethics Standards Board for Accountants