



March 13, 2017

Mr. Matt Waldron  
Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
585 Fifth Avenue – 14<sup>th</sup> Floor  
New York, NY 10017  
U.S.A.

Dear Mr. Waldron:

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

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide its comments on the International Auditing and Assurance Standards Board's (IAASB's) Discussion Paper, *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards*. In developing our response, we considered comments provided by our stakeholders. AASB staff held various consultation sessions with stakeholders from across Canada, and considered response letters received on the AASB's Invitation to Comment (ITC) on this topic. Appendix A provides a summary of the consultation sessions held and the respondents to the ITC. In our response, "Canadian stakeholders" refers to those who provided us with input.

Eric Turner  
Director

Tel. / Tél : 416.204.3240  
Fax / Téléc. : 416.204.3408  
eturner@cpacanada.ca

**Auditing and Assurance  
Standards Board**

277 Wellington Street West  
Toronto, Ontario  
M5V 3H2 Canada  
Tel: 416.977.3222  
Fax: 416.977.8585  
www.frascanada.ca

**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?*

The AASB strongly supports the premise that procedures in an AUP engagement should result in objectively verifiable factual findings and that professional judgment is exercised only in the context of professional

**Conseil des normes d'audit  
et de certification**

277, rue Wellington Ouest  
Toronto (Ontario)  
M5V 3H2 Canada  
Tél : 416.977.3222  
Téléc : 416.977.8585  
www.nifccanada.ca

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competence and due care. This premise creates a clear distinction between an AUP engagement and an assurance engagement. In our view, a clear distinction between AUP and assurance engagements is vital to avoid misleading users as to the nature and extent of the practitioner's involvement with the subject matter of the engagement. Canadian stakeholders have also informed us that this premise is consistent with their understanding of the nature of, and the role of professional judgment in, an AUP engagement.

The use of professional judgment in an AUP engagement is a complex subject. Further examples of the use of professional judgment consistent with the premise indicated above would help to clarify the role of professional judgment in an AUP engagement. In addition to the examples set out in paragraph 12 of the Discussion Paper, the IAASB may wish to consider the following:

Professional judgment when becoming aware of indications of possible fraud

- There may be circumstances when the practitioner becomes aware of indications of possible fraud. For example, when performing AUP on certain documents, the practitioner may become aware of a document that appears to be tampered with. In such cases, exercising professional judgment in the context of professional competence and due care means that the practitioner would take further actions to avoid being associated with false or misleading information.

Professional judgment in selecting samples

- There may be circumstances when a regulator may require AUP to be performed on trust account expenditures for any one month during the year. The regulator does not specify which month is to be selected. In most cases, the practitioner may select the month (and specify the month selected in the AUP report) since the user has accepted responsibility that the AUP performed on any one month is sufficient for the user's purposes.

There may be circumstances when a user may require the practitioner to select samples on which to perform AUP, but does not specify the number of samples or how they are to be selected. In such cases, the practitioner may provide advice on the number of samples and how the samples are to be selected before commencing the engagement. However, the number of samples to be selected and how they are to be selected should be clearly set out in the AUP report. This is because the intended user is responsible for determining whether the samples selected are sufficient and appropriate for the user's purposes.

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

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We propose two requirements relating to professional judgment be included in the revised ISRS 4400:

- The practitioner shall exercise professional judgment in the context of professional competence and due care in conducting an AUP engagement; and
- The practitioner shall obtain knowledge of the objectives of the AUP engagement.

A requirement for the practitioner to exercise professional judgment in the context of professional competence and due care, together with examples on professional judgment as discussed in our comments on Q1, would help to clarify the role of professional judgment in an AUP engagement. A requirement for the practitioner to obtain knowledge of the objectives of the AUP engagement would assist the practitioner to conduct the engagement with due care. By having a knowledge of the objectives of the AUP engagement, the practitioner will, for example, be more likely to become aware of procedures that are inappropriate or other indications that the information with which the practitioner is associated may be misleading in the context of the AUP engagement.

We did not identify any unintended consequences to the proposed requirements. In our view, the proposed requirements are consistent with the practitioner's obligations under the *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*, which requires the practitioner to exercise professional judgment, and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), which requires the practitioner to exercise professional competence and due care.

### **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?*

In our view, the practitioner's independence should be addressed in the IESBA Code or ethical requirements relevant to the jurisdiction, and not in an engagement standard. Including independence requirements in the AUP standard may result in confusion and potential inconsistencies with the IESBA Code or ethical requirements applicable in a particular jurisdiction (for example, there are already independence requirements relating to AUP engagements in various provincial Code of Professional Conduct in Canada).

We further note that the IESBA Code already requires the practitioner to be objective (although not independent) when performing a non-assurance

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engagement. In our view, the objectivity requirement is sufficient to provide users with the necessary confidence that the practitioner has acted objectively without bias, conflict of interest or the undue influence of others in undertaking the AUP engagement.

However, when the practitioner is not independent, we believe it would be helpful to require this to be communicated in the practitioner's report. For example, requirements for a statement to be made in the AUP report if the practitioner is not independent (as set out in existing ISRS 4400) and for the engagement letter to indicate that the AUP report will include such a statement.

We also support including application and other explanatory material in the AUP standard to address the circumstance where the user may require, or presume, the practitioner to be independent (and not just objective). For example, an application and other explanatory material paragraph to explain that the terms or objectives of the AUP engagement, laws or regulation, or relevant ethical requirements may require the practitioner to comply with independence requirements even though the IESBA Code does not require the practitioner to be independent when performing a non-assurance engagement (as set out in existing ISRS 4400).

Our views would not change if the AUP report is restricted to specific users.

### **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 to specific users?*

As a general principle, we agree that unclear or misleading terminology should not be used. However, it is important to recognize that some terms that may seem misleading at first glance, may actually be appropriate when there is a common understanding of the terms between the entity and the user. Therefore, we would support guidance on what may constitute unclear or misleading terminology (as described in paragraph 27 of the Discussion Paper), but would not support a list of prohibited words.

Canadian stakeholders have also informed us that they often encounter terminology prescribed by law or regulation that may be misleading. To avoid potential misunderstanding while allowing sufficient flexibility to meet legal or regulatory requirements, we propose that the practitioner be required to:

- Consider whether any of the terminology is unclear or misleading in light of the context the terminology is used;
- Request terminology that is unclear or misleading be changed; and

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- If the unclear or misleading terminology cannot be changed because it is prescribed by law or regulation, include a definition of the terminology in the AUP report so that it is no longer unclear or misleading.

Our views would not change if the AUP report is restricted to specific users as unclear or misleading terminology could still be misinterpreted.

### **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 that the scope of ISRS 4400 includes non-financial information given the increasing need for AUP engagements to be performed on such information. We also agree with the pre-conditions relating to competence. However, we are of the view that the pre-conditions relating to competence should apply regardless of whether the AUP engagement deals with financial or non-financial information.

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

We did not identify any other matters at this time.

### **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 that ISRS 4400 should address use of experts and others in an AUP engagement. However, when an expert is used, there is a danger that the expert may be requested to perform procedures that require extensive professional judgment that result in subjective opinions or conclusions. We therefore suggest an application and other explanatory material paragraph to remind the practitioner that regardless of whether the AUP is performed by the engagement team or others (such as the practitioner's expert), the AUP should result in objectively verifiable factual findings and professional judgment is exercised only in the context of professional competence and due care.

Paragraph 34 of the Discussion Paper suggests that the Working Group is contemplating a requirement to bring any involvement of an expert to the attention of the engaging party. In our view, such a requirement is unnecessary. The practitioner will already be reaching agreement with the entity on the

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nature, extent and timing of the procedures to be performed for the AUP engagement as a whole. The allocation of those procedures between the practitioner and the expert should not concern the engaging party. Moreover, highlighting the procedures to be performed by the expert may increase the likelihood of the entity misinterpreting those procedures and the resulting findings.

We agree with the contemplated requirements as set out in paragraph 35 of the Discussion Paper.

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

*Q8. What are your views regarding the Working Group’s suggestions for improvements to the illustrative AUP report?*

We support the Working Group’s view that providing additional example reports in ISRS 4400 would be beneficial in facilitating clearer and better communication of the factual findings of an AUP engagement. An example report with unclear or misleading terminology prescribed by law or regulation with a corresponding definition to clarify the terminology would be helpful.

### **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 that the AUP report can be provided to a party that is not signatory to the engagement letter as long as:

- The practitioner is satisfied that the party has a clear understanding of the AUP and the conditions of the engagement; and
- The party is specified as an intended user of the AUP report in the terms of engagement.

Limiting the distribution of the AUP report to parties that are signatories of the engagement letter diminishes the value of the AUP engagement if the report cannot be distributed to users who require it.

### **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.*

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In our view, the third approach described in paragraph 44 of the Discussion Paper best satisfies the objective of allowing the AUP report to be distributed to (and used by) an appropriate party who was not originally specified in the terms of the engagement while mitigating the risk of unintended users misinterpreting the AUP report. This approach addresses the circumstances whereby an AUP report may be provided to an appropriate party who was not originally specified in the terms of the engagement or when an AUP report is required by law or regulation to be posted online. The statement that the AUP report is intended solely for the specific users and may not be suitable for any other purposes helps mitigate the risk of unintended users misinterpreting the report.

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

We did not identify any other approaches that the Working Group should consider. However, if the Working Group rejects the third approach, we are of the view that the first approach should be taken. In our view, it is important that the AUP standard either requires:

- The practitioner to agree with the entity the specified parties who will receive the AUP report and that the entity will restrict the distribution of the AUP report to those specified parties; or
- The AUP report to include a statement to the effect that the report is intended solely for the specific users and may not be suitable for any other purposes.

The absence of any requirements could result in potentially misleading AUP reports as readers who are unaware of the context for the AUP could misinterpret the results of those procedures.

### **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 with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings in the AUP report for the reasons stated in the Discussion Paper. In our view, the most effective way of distinguishing recommendations from the AUP report is for the practitioner to issue recommendations in a separate document from the AUP report.

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## 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.*

The Working Group may wish to consider including requirements or application or other explanatory material on the following matters:

- Written representations – A requirement or guidance for the practitioner to obtain written representations from the entity that the entity acknowledges its responsibility for the subject matter.
- Date of AUP report – A requirement or guidance for the practitioner to date the AUP report no earlier than the date on which the practitioner completed the procedures and obtained the written representations from the entity.

In addition, we note that recent AUP standards issued by the American Institute of Certified Public Accountants (AICPA) and the Australian Auditing and Assurance Standards Board (AUASB) include materials on the use of the work of the internal auditor. The AICPA takes the view that the AUP should be performed entirely by the engagement team or other practitioners. The AUASB takes the view that the practitioner may use the work of the internal auditor as long as the practitioner evaluates the adequacy of the work. There may be some merit for the revised AUP standard to clarify whether it is appropriate for the practitioner to use the work of the internal auditor in a direct assist capacity.

## 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?*

Our view is that IAASB should address multi-scope engagements given the increasing demand for such engagements. We believe that guidance on multi-scope engagements to be developed by the IAASB should set out general principles (and provide examples) that are applicable globally; for example:

- Clarification on whether, and if so how, the reporting on various elements within a multi-scope engagement should be segregated.
- Example reports on multi-scope engagements – for example, a multi-scope engagement consisting of an engagement under ISA 805<sup>1</sup> and an AUP

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<sup>1</sup> ISA 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*



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engagement under ISRS 4400 on both financial and non-financial information.

Specific guidance such as a roadmap or decision tree on standards relevant in a multi-scope engagement may best be developed by national standard setters and not by the IAASB. This is because multi-scope engagements are often jurisdiction-specific and many jurisdictions have a suite of standards that may differ from the IAASB pronouncements.

*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 that it would be more efficient to address the issues relating to AUP engagements before multi-scope engagements. Once ISRS 4400 has been revised, the IAASB can revisit multi-scope engagements to determine what type of guidance, if any, is still needed. Nonetheless, if resources permit, the IAASB may consider developing non-authoritative guidance on selected multi-scope engagement issues (for example, those that are unlikely to be impacted by the ISRS 4400 revision project).

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We hope that these comments will be useful to the IAASB in determining the appropriate next steps relating to these key projects. If you have any questions or require additional information, please contact Eric Turner at (416) 204-3240.

Yours very truly,



Darrell Jensen FCPA, FCA  
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board members  
Ron Salole

**APPENDIX A: Summary of consultation sessions held and the respondents to the AASB's Invitation to Comment on the IAASB's Discussion Paper**

<b>Location of consultation session</b>	<b>Date</b>	<b>In Attendance</b>
Winnipeg	Dec 5	<ul style="list-style-type: none"> <li>• 1 representative from a large international firm</li> <li>• 5 representatives from small-medium practices</li> </ul>
Regina	Dec 6	<ul style="list-style-type: none"> <li>• 1 representative from regulatory body</li> <li>• 1 provincial CPA staff</li> </ul>
Calgary	Dec 7	<ul style="list-style-type: none"> <li>• 5 representatives from small-medium practices</li> <li>• 1 provincial CPA staff</li> </ul>
Edmonton	Dec 8	<ul style="list-style-type: none"> <li>• 5 representatives from small-medium practices</li> <li>• 1 provincial CPA staff</li> </ul>
Vancouver	Dec 9	<ul style="list-style-type: none"> <li>• 2 representatives from regulatory bodies</li> <li>• 1 representative from a large international firm</li> <li>• 4 representatives from small-medium practices</li> <li>• 4 representatives from consulting firms that work with regulatory bodies</li> <li>• 3 provincial CPA staff</li> </ul>
Toronto	Jan 20	<ul style="list-style-type: none"> <li>• 1 representative from a large international firm</li> <li>• 6 representatives from small-medium practices</li> <li>• 1 provincial CPA staff</li> </ul>
Virtual meeting – French	Jan 26	<ul style="list-style-type: none"> <li>• 1 representative from small-medium practice</li> <li>• 1 academic</li> <li>• 1 provincial CPA staff</li> </ul>
Virtual meeting – English	Jan 26	<ul style="list-style-type: none"> <li>• 1 representative from a small-medium practice</li> <li>• 1 representative from a large international firm</li> </ul>

**Formal response letters received**

- One response letter from a provincial auditor general.
- Two response letters from large public accounting firms.