

IAASB
International Auditing and Assurance Standards Board

Posted as comment on:
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19 April 2017

Subject: FSR – danske revisorer response to the IAASB's Invitation to Comment on Exploring the Demand for Agreed-Upon Procedures Engagements

Dear Sir or Madam,

FSR – danske revisorer is pleased to provide you with its comments on the IAASB Discussion paper: "Exploring the Demand for Agreed-Upon Procedures (AUP) Engagements and Other Services, and the Implications for the IAASB's International Standards".

We support the IAASB's decision to explore this topic. For many years, AUP engagements have been used for a multiple of different purposes and by many different users. We see the need for these types of engagements increasing and the topic is, therefore, important for ensuring that the profession can be relevant, delivering new and value adding services.

Today there is, however, a number of challenges with using the current standard, resulting in it that there is a large number of situations where an AUP engagement cannot be used or does not give its intended value to the users of the factual findings reports.

One of the main challenges is caused by the requirement to enter into an engagement letter with the user of the report. We, therefore, welcome the IAASB's view that it should be possible to provide an AUP report to a party that has not signed the engagement letter. In these situations, it is, however, important that the procedure results in objectively verifiable factual findings and not judgement findings, and that the report is prepared solely for specific intended users and that these users are disclosed in the factual findings report.

An AUP engagement is very flexible as the procedures can be tailored to specific needs and circumstances. In practice, this results in it that procedures are changed or added throughout an engagement so that users' needs are met. The current standard does not stipulate that procedures can be changed after an engagement letter is signed. In our opinion, the standard should include more flexibility so the engaging party is only required to agree to the procedures to be performed before the factual findings report is issued.

The current wording in the factual findings report is not suitable or understandable for many non-technicians using a factual findings report. In our

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opinion, the IAASB should consider if the caveats in the reports can be less extensive and/or made more understandable for users. This is especially an issue due to it that a comprehensive conclusion is not given, which would be value adding if there are no negative findings from the performed procedures.

Side 2

Please refer to Appendix 1 for our detailed answers to the questions stated in the invitation to comment.

For further information on this letter, please contact Louise Nellemann on +45 41933161 or via email at ln@fsr.dk

Kind regards,
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Consultant, State Authorized Public Accountant
FSR – danske revisorer

Appendix 1

The Role of Professional Judgment and Professional Scepticism in an AUP Engagement

Question 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?

We agree with the views of the IAASB. However, professional judgment plays a significant role when agreeing with the engaging party the details of the procedures to be performed. Consequently, the procedures to be performed may be agreed as part of an iterative process that continues throughout the performance of the engagement. In such circumstances, judgement may be used to determine the type and extent of procedures to be performed up to a late stage in the engagement.

We are of the opinion that professional judgement and scepticism is an important aspect of delivering value to the users of our services. Therefore, it should be carefully considered how this could be incorporated into the ISRS 4400 standard.

Question 2

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

There is a need to include requirements relating to professional judgement, but it is important that the professional judgement is tailored to the subject matter and users of the AUP engagement. In certain circumstances, it is important that there is no room for professional judgement and in others, it is important for the user of the factual findings report that professional judgement is used.

The Independence of the Professional Accountant

Question 3

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 opinion the practitioner should be independent if the factual findings report is not restricted to specific users and if the AUP engagement is required by law or regulation. This is due to it that if a practitioner signs the report with his/her professional title, users expect that the practitioner is independent. It is also our experience that it is very rare that the practitioner is not independent when performing AUP engagements.

In our view, it is difficult for users to understand that for assurance engagements, practitioners are required to be independent but when practitioners perform assurance like procedures, the practitioner is not required to be independent. Consequently, we believe the practitioner should be independent in both circumstances.

In our view, it can be acceptable that the practitioner is not independent when the AUP report is restricted to specific users, and the users have accepted this at the point in time when the engagement commences.

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

Question 4

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?

The terminology used in an AUP engagement should be clear, unambiguous and not misleading. In our view, the standard should include guidance about what unclear or misleading terminology means. Our views would not change whether the AUP report is restricted or not.

Having strict guidance could lead to practitioners being prohibited from accepting certain engagements, with the result that the clients would be unable to comply with requirements imposed on them. Thus, the standard should include a requirement that when specific words are required by law, regulation or third-party contracts, the practitioner should seek to define or describe those words in the AUP report so that their use is no longer unclear or misleading. Where this is not the case, we agree that ISRS 4400, in general, should prohibit the use of

unclear or misleading terminology and a small number of words - such as 'review', 'audit', or 'assurance', that would be unclear or misleading.

Side 5

AUP Engagements on Non-Financial Information

Question 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 that it is clarified that the scope of ISRS 4400 includes non-financial information. Our experience shows that there are more and more AUP engagements that are aimed at non-financial information.

We agree that ISRS 4400 should address the need for the engagement team, as a whole, to consider whether they have the competences required to perform an AUP engagement on the respective non-financial information.

Question 6

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

We have not identified any other matters that should be considered if the scope is clarified to include non-financial information.

Using the Work of an Expert

Question 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?

Our experience is that the practitioners are usually well-equipped with relevant skills and experience to provide AUP engagements. However, depending on the subject matter the professional may be less familiar with some of the technicalities related to the particular non-financial information subject matter.

In some cases, specialist expertise may be needed to define which procedures should be performed and/or how procedures should be performed so that procedures and findings are sufficiently precise.

In this context, we agree with the Working Group's view.

Format of the AUP Report

Side 6

Question 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.

In our view, the "short form" of the illustrative AUP report should be changed so that the procedure and corresponding finding are presented together.

We support that the standard should include an illustrative report that includes a tabular format, which can be used when there is a significant number of procedures. In our view, it is important that the standard reflects that there can be alternate ways of presenting procedures and related findings.

AUP Report Restrictions – To Whom the AUP Report should be Restricted

Question 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?

We support 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.

In many cases, restricting the AUP report to the parties signing the engagement letter would restrict engaging parties' ability to use AUP reports for specific purposes.

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

Question 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 our view, the third approach is the most practical approach and makes the reader aware that the report is only intended for specific users and may not be suitable for other purposes, which is in our view the most relevant restriction. The other two approaches are in our view too restrictive or too lenient.

Question 11

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

We have not identified any other approaches that the Working Group should consider.

Recommendations Made in Conjunction with AUP Engagements

Question 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?

We agree with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings.

In our view, due to legal requirements or agreements, there may be a need to include recommendation in a factual findings report.

We recommend that the IAASB consider how other reporting requirements should be reflected in a factual findings report.

Other Issues relating to ISRS 4400

Question 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.

The current wording in the factual findings report is not suitable or understandable for many non-technicians using the factual findings report. In our opinion, the IAASB should consider if the caveats in the reports can be less extensive and/or made more understandable for users.

It is our experience that factual findings reports that are prepared in connection with disputes or court cases are "thrown out" due to the wording that is used in the factual findings report and the lack of understanding that the practitioner "concludes" on each separate procedures performed.

Multi-Scope Engagements

Question 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?

Non-authoritative guidance would be useful to address multi-scope engagements. The guidance should focus on reporting issues to help ensure consistency and transparency to readers of reports on multi-scope engagements.

Today we experience that there is a significant number of different multi-scope engagements that are driven by legal and regulatory requirements. We have noted that they are usually handled in a satisfactory manner, as the recipient of the report is usually the same party as the one that set the requirements for such engagements and how they should be reported.

Question 15

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

General Question

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.

Usually we see multi-scope engagements as part of assurance engagements, were for example regulation requires the practitioner to perform specific procedures etc. and report specifically on these as part of the assurance report.

We believe that more guidance should be developed in regards to how the practitioner should report based on different types of additional reporting requirements there could be in connection with an assurance engagement.