



For the attention of Mr Matt Waldron
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
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[Submitted via IAASB website]

29 March 2017

Dear Matt

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

We¹ appreciate the opportunity to comment on the IAASB's Discussion Paper (DP).

Agreed-upon procedures ("AUP") engagements are an integral part of the suite of services provided by our member firms across our Network. They are valued and widely used.

The extant Standard has worked well and is not broken, but it is worthy of a refresh in light of how AUP engagements have evolved since its issuance quite a while ago. Therefore, we support the IAASB revising ISRS 4400 so that the purpose and parameters under which an AUP engagement is performed are more easily understood by both practitioners and users.

In doing so, we think it is in the public interest for the IAASB to consider how the standard can better support the variety of AUP engagements that are currently being requested and if the concept of an AUP engagement needs to evolve to better meet the demand for such engagements.

The variety of AUP engagements and their characteristics

What differentiates an AUP engagement from assurance engagements is that the scope, nature, and extent of the procedures performed are not designed by the practitioner in order to obtain evidence to provide a basis for an opinion or conclusion on a subject matter as a whole. Rather, it is the application of specific procedures at the request of a user, where the user takes responsibility for deciding whether the scope,

¹ This response is being filed on behalf of the network of member firms of PricewaterhouseCoopers International Limited and references to "PwC", "we" and "our" refer to the PwC network of member firms.

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nature and extent of these procedures are appropriate to their circumstances in light of the stated purpose of the engagement.

As a basis for forming our views on the questions asked in the DP, we surveyed the largest territories across our network to get a better understanding of the nature of AUP engagements that are performed. We also looked at changes national standard setters have made, or are contemplating, to their local AUP standards in response to evolving market needs for services other than audits, reviews and other assurance engagements.

We found that the most common types of AUP engagements are requests from local regulators to report factual findings regarding an entity's adherence to specific regulatory requirements, requests from funding agencies for procedures to be performed related to the use of funds in accordance with the terms of grant or funding agreements, and reporting on compliance with, for example, bank covenants or specific provisions in loan agreements. In addition, there are a wide variety of "private" bespoke engagements requested by management and/or those charged with governance of an entity.

While each of these engagements may fit into the category of AUP engagements, they reflect a spectrum of engagements with different characteristics, which, as illustrated in Appendix 2, can vary from bespoke engagements designed to meet a specific need of management or those charged with governance; to engagements to perform specific procedures to meet the needs of specific external users or a class or external users; to engagements at the request of a regulator or funding agency within a well-defined engagement and reporting framework.

The characteristics that vary across that range of engagements include:

- The involvement of the practitioner in shaping the engagement, which may vary from the practitioner working with management or those charged with governance to help them design procedures that would meet their needs, to circumstances when the profession may work with a regulator or funding agency to assist in developing regulatory requirements and specific procedures that are then used across a population of entities (a "well-established framework").
- The nature of the procedures, which can vary from being bespoke to standardised procedures developed for specific types of engagements.
- The users, which can vary from management and/or those charged with governance who are internal to the entity, to specific third parties, to a specific class of third-party users, to potentially a broad range of users. The Standard as it exists today largely contemplates the users of the AUP report as the entity and third parties who have agreed to the procedures, but the concept of users of these reports has changed over time.
- The nature of reporting, which can vary from bespoke, narrative reporting with accompanying communication of observations and recommendations when reporting to management or those charged with governance, to more standardised reports that are made available to a broader range of external users to demonstrate an entity's compliance with regulation or specific agreements.



- The need to restrict the report, which is greater the more bespoke the engagement, but may be less important if the procedures performed in the AUP engagement are well-understood and within a defined framework (whether standards or regulation, for example).

The differences in these characteristics across the spectrum of AUP engagements could justify different engagement approaches and reporting. Therefore, we believe that the Standard should be broadened to reflect the range of AUP engagements and the requirements, and related guidance written in such a way that they can be applied to the varying characteristics of them.

Our answers to the questions included in Appendix 1 reflect how we think the Standard could be enhanced to better reflect the full range of AUP engagements. Allowing the Standard to evolve and adapt to the changing requests for AUP engagements is in the public interest, and recognises the value that practitioner association with key subject matters lends to the credibility of that information.

In Appendix 2, we offer some preliminary thoughts on what the Board may need to think about in relation to the different engagement circumstances across the spectrum of AUP engagements.

Other key points

Some of the other key points we make in our responses to the questions include:

- As in any other type of engagement, practitioners would be expected to be competent and apply due care.
- Although professional judgement is not applied in performing AUP engagements in the same way as it is in performing an audit, review, other assurance engagement or consulting, we believe it is exercised in determining whether the procedures to be performed are appropriate given the purpose of the AUP engagement. In practice, practitioners often work with the users of the report in helping to design procedures that will meet their needs. As such, saying that there is no professional judgement applied at all in AUP engagements is taking a narrow view and underestimating the judgement applied in engagement acceptance and design.
- The procedures in an AUP engagement should generally result in objectively verifiable factual findings and are not designed to provide a basis for the practitioner to form an opinion or conclusion. Much time can be spent in the engagement acceptance process in working with the user of the report to define the procedures that will provide the information they seek but, once defined, the focus is on performing those procedures and reporting the results.
- We believe that it is appropriate for the practitioner to determine whether there is a need for an expert based on the subject matter of the engagement. Such consideration should form part of the engagement acceptance consideration. It remains important, however, that the practitioner has sufficient understanding of the subject matter to understand the expert's work and to be able determine what an exception would be with regards to the subject matter.
- Engagements that combine AUP with other forms of assurance are performed in practice today and, where this is done, each form of reporting needs to be clearly distinguishable. The Standard does not need to provide a lot of guidance in this regard, but it would be useful to acknowledge that multi-scope engagements are possible and that clarity is important when reporting.



- Given that there is market demand for AUP engagements on non-financial information, broadening the scope of the Standard to apply to both financial and non-financial information would be useful, as well as developing any specific considerations when the subject matter is non-financial.

In conclusion, although ISRS 4400 was issued more than a decade ago, it remains a useful Standard. However, for all of the reasons above, we are in support of revising ISRS 4400 to bring it up to date so that it is capable of being applied to a broader spectrum of engagements. In doing so, further outreach will be important to confirm whether suggested approaches would meet users' needs.

Whether or not an update to the Standard is prioritised in the shorter term will, however, depend on the Board's ongoing capacity, given the other priority projects currently in progress. The current Standard is not unduly constraining developments in practice, so its revision is not urgent. However, it would be a useful update when the Board has the resources and agenda time to devote to it.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Diana Hillier, at diana.hillier@pwc.com, or me, at richard.g.sexton@pwc.com.

Yours sincerely,

A handwritten signature in blue ink that reads "Richard G. Sexton".

Richard G. Sexton
Vice Chairman, Global Assurance



Appendix 1

Responses to the questions in the Request for Input

Q1. *Results from the Working Group’s outreach indicate that many stakeholders are of the view that professional judgement 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 judgement in an AUP engagement? If not, what are your views on the role of professional judgement in an AUP engagement?*

- Practitioners do apply professional judgement in the engagement acceptance decision, including in deciding whether an AUP engagement is appropriate in the circumstances and, if so, in designing (in conjunction with the entity and/or user) the procedures to be performed. The practitioner may also need to further refine the procedures during the course of the engagement in light of additional understanding obtained.
- However, we agree that once the procedures are designed, professional judgement is not applied in the performance of the procedures themselves or in the interpretation of the results. There may be AUP engagements when an agreed procedure may involve achieving an agreed amount of coverage of a population. In these circumstances, the practitioner would select the items to be tested, but we do not consider this to be the application of professional judgement, as the practitioner is not determining the appropriate amount of coverage but is simply completing the agreed procedure.
- Therefore it would be useful for the Standard to expand on what is involved in the parties “agreeing on the procedures”, and explain the role the practitioner might play in helping to design appropriate procedures in light of the users’ information needs. However, it will be important to emphasise that the practitioner needs to be careful that, in doing so, the party for whom the procedures are being performed still takes responsibility for the sufficiency of the procedures to meet the users’ information needs.

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

- Yes, we agree that the Board should look at the requirements to ensure they are not unduly restrictive in this context. In doing so, it will be important to be clear about the context in which professional judgement is referenced and that it would be expected when the practitioner is working with the entity and/or user to tailor the procedures so that they are fit for purpose. However, as noted above, once the procedures are defined, the practitioner would not apply professional judgement in the performance of the AUPs or the interpretation of the results of the AUPs in the same way that it is applied in an audit, review, other assurance engagement or consulting engagement. The procedures are not designed to provide a basis to form a conclusion.
- The practitioner does, however, exercise due care and competence in performing the procedures and so the existing requirement for the practitioner to comply with the ethical principles



governing the practitioner's professional responsibilities for this type of engagement in the Standard is still relevant.

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

- The independence requirements that are appropriate for an AUP engagement is a matter for IESBA and we recommend that the IAASB liaise with IESBA on this matter.
- The practitioner is always expected to perform the engagement with an objective state of mind. However, in the extant ISRS 4400, paragraph 7 says that independence is not a requirement for an AUP engagement and that, where the auditor is not independent, a statement to that effect would be made in the report of factual findings. This position was developed at a time when most AUP engagements were performed primarily for management or those charged with governance, and in limited circumstances provided to specific third parties.
- As the use of AUP engagements has broadened to include more third-party users, we agree that it is appropriate to revisit this position. We believe that the nature or identity of the user of the AUP report could have a bearing on the whether or not compliance with independence requirements would be necessary in an AUP engagement.
- When the AUP report is intended for management and/or those charged with governance, they are in a position to evaluate the potential risks to the practitioner's objectivity of particular relationships.
- Where the AUP report is being provided to external third-party users, they may not be in a position to evaluate the potential threats to the practitioner's objectivity and IESBA may therefore determine that complying with independence requirements may be necessary in these circumstances to safeguard against those threats.
- In either circumstance, we believe the practitioner should be transparent about whether there are any factors which could reasonably be expected to influence the users' view of their objectivity, and we support the practitioner including a statement in the AUP report regarding independence in all cases, not just where the practitioner is not independent.

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?

- It is important that the practitioner's report is clear so that users do not misinterpret the nature and extent of work performed. It will be particularly important where the report is intended to be distributed outside the entity (e.g., to external third-party users, or a class of users, or a wide range of users), to ensure that terminology used in the report is capable of being easily understood and that the risk of misinterpretation is mitigated.
- This can in part be addressed by the practitioner in describing the procedures, but some high-level guidance such as "don't use words that imply assurance" or don't use words such as "audit", "review" or "assurance" cautioning practitioners against using imprecise terms or terms of



uncertain meaning in describing the procedures could be helpful to clarify what would not be appropriate.

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?

- There is increasing market demand for AUP engagements on non-financial information and AUP engagements that include both financial and non-financial information. Therefore, we support clarifying that the scope of ISRS 4400 includes both financial and non-financial information.
- As in any AUP engagement, a pre-condition to accepting the engagement is that the practitioner has the necessary competence to perform the engagement. In the case of an AUP engagement that includes non-financial information, if the practitioner determines there is a need for an expert given the subject matter, we believe it would be useful to establish the principle that the practitioner still needs to be able to understand the expert's work and what an exception would be with regards to the subject matter.

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

- As above, we consider it essential that the Standard addresses the need for the practitioner to consider whether they have the competence to perform the AUPs on non-financial information as this information can sometimes be very technical or industry-specific.
- It may also be useful for guidance to emphasise that, in order to accept the AUP engagement, the practitioner needs to determine that the non-financial information is measurable and the procedures to be performed on it are capable of being performed objectively.

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 the Standard should address factors that the practitioner should consider when using the work of experts to assist in the performance of the procedures.
- The Standard should, in our view, be clear that, if the practitioner does not have sufficient competence to evaluate the expert's work, this would influence whether they can accept the engagement or not.

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

- We do not suggest the IAASB spends time developing an illustrative report, as most reports are bespoke to the requestor.



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?

- Yes, in practice there is currently demand in some circumstances for the report to be made available to third parties who are not signatories to the engagement letter (e.g., regulators, funding agencies).
- One of the practitioner's objectives is to avoid issuing (or consenting to the release of) a report that they believe is likely to mislead users.
- We believe that there are ways, however, in which the practitioner can satisfy himself or herself that those users will understand the purpose for which the report of factual findings is intended to be used. This could, for example, include using clear terminology, outlining the purpose for which the report is prepared, and what the practitioner's responsibilities are in regard to performing an AUP. Accordingly, they should be able to use their judgement as to the likely level of knowledge of the third party.
- Where the report is intended to be bespoke and for management's purposes, third-party distribution would generally not be considered appropriate, as the engagement is not designed with a third party(s) in mind. However, a complete prohibition in such circumstances may be unduly restrictive, as the practitioner can make an informed decision whether to consent to the report being provided to other specific users. Safeguards that are sometimes used in practice in these circumstances include obtaining a "hold harmless" agreement with the user, that acknowledges that the engagement and report were not designed with that user(s) needs in mind.
- Ultimately the decision about whether to consent to the AUP report being made available to other parties and under what circumstances should be a risk management decision for the practitioner.

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.

- As the nature and extent of restriction that would be appropriate in the practitioner's report likely varies across the spectrum of AUP engagements, we would not support requiring nor precluding the practitioner from including restrictions on the AUP report in all circumstances.
- Narrowly restricting the AUP report is appropriate for a bespoke engagement designed specifically with the needs of management and/or those charged with governance. However, it could be too restrictive in circumstances when a specific third-party user or even class of users is involved. And we think the Board should consider whether there may be circumstances when even broader distribution might be allowable (e.g., when a well-established framework exists for a specific type of AUP engagement) and, if so, what engagement circumstances and safeguards may be appropriate to mitigate the risk of readers misinterpreting the report and placing unwarranted reliance on it.
- Therefore additional guidance as to when it would be appropriate to restrict the AUP report may be helpful, with the overarching consideration that care should be taken to ensure that those receiving or using the report will have an adequate understanding of the purpose of the AUP engagement and the procedures performed, and a basis upon which to consider the findings.



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

- No.

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 acknowledge that, from time to time and depending the nature of the engagement, the practitioner may have recommendations.
- We believe that the recommendations should be in a separate report to avoid confusing the nature of the engagement.

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.

- Guidance that clarifies what the key features are that differentiate an AUP engagement from other types of engagement (e.g., audit, review, other assurance or consulting engagements) would be useful.

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?

- In practice, we do encounter engagements that include different elements. Each element of a multi-scope engagement is subject to its own individual Standards and, as such, it is a matter of drawing on those and bringing the reporting together.
- The Standard therefore does not need to provide a lot of guidance, but it would be useful to acknowledge that multi-scope engagements are possible and that each form of reporting and related scope should be clearly distinguishable.

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

- Since we do not think multi-scope engagements are, in principle, challenging, we think it ought to be possible to include some limited guidance in the revision to the standard. If additional guidance is needed for specific types of multi-scope engagement, then we agree that this might be addressed later by the Board in, for example, a Practice Note.



Appendix 2

Considerations with respect to different engagement characteristics across the spectrum of AUP engagements –

| <i>Engagement considerations</i> | <i>AUP designed to meet the bespoke needs of management or those charged with governance</i> | <i>AUP designed to meet the needs of an identified third party</i> | <i>AUP designed to meet the needs of a class of identified users</i> | <i>AUP designed to meet the needs of a broad range of users</i> |
|--|--|--|--|---|
| <i>Should the user be required to be a signatory to the engagement letter?</i> | Yes, it is appropriate in these circumstances to determine that the procedures meet their needs. | Yes, it is generally appropriate in these circumstances to determine that the procedures meet their needs. An exception would be where a well-defined engagement and reporting framework exists such as those developed by regulators or funding agencies. In such circumstances the identified third party should be referenced in the engagement letter as a user of the report. | No, it is likely to be impracticable in these circumstances. However, the class of user could be referenced in the engagement letter as they are identifiable. | No, it would clearly not be possible in these circumstances. It is for this reason that these engagements are likely only appropriate in circumstances when there is a well-established framework and the terms of the engagement and the AUP report would need to make explicit reference to that framework. |



| <i>Engagement considerations</i> | <i>AUP designed to meet the bespoke needs of management or those charged with governance</i> | <i>AUP designed to meet the needs of an identified third party</i> | <i>AUP designed to meet the needs of a class of identified users</i> | <i>AUP designed to meet the needs of a broad range of users</i> |
|---|---|--|---|--|
| <i>Should the practitioner be independent in accordance with the IESBA Code (or other independence requirements)?</i> | Not critical as management and/or those charged with governance are able to evaluate the potential risks to the practitioner's objectivity of particular relationships. | Independence becomes more important when external users are expected to have access to the AUP report, as those users would be less directly involved in the engagement acceptance decision. In all cases, transparency is important and a statement included in the AUP report regarding the practitioner's independence (e.g., the practitioner's compliance with applicable independence requirements in the AUP report and/or, in situations where independence is not required, disclosure of any factors which could reasonably be expected to influence the users' view of the practitioner's objectivity), would be useful. | | |
| <i>Who is involved in the design of the procedures to be performed?</i> | As these are bespoke engagements, the practitioner will often work with management and/or those charged with governance to help design the procedures that will meet their needs. | As these engagements are being designed to meet the needs of a specific identified third party, that user would either be involved with the entity (and often the practitioner) to determine the procedures that would meet their needs, or would acknowledge in writing that the designed procedures do meet their needs. | As a number of third parties are involved, it is less likely that each of the users can participate in the design of the procedures. However, the engagement can often be developed together with representatives of the class of identified users. | These engagements would only be appropriate when a generally accepted framework for them exists. The profession may be involved in working with/advising the body requesting the engagement to agree on the procedures that would be appropriate in these circumstances and the form or reporting. |
| <i>Form and content of report</i> | Could be narrative and include observations. Recommendations may be provided in a separate communication. | Factual reporting of the procedures and findings, focussing on using clear and defined terminology to mitigate risk of misinterpretation. | Factual reporting of the procedures and findings, focusing on using clear and defined terminology to mitigate risk of misinterpretation. | Factual reporting of the procedures and findings, with a preference for a standardised form of reporting in accordance with a defined framework. |



| <i>Engagement considerations</i> | <i>AUP designed to meet the bespoke needs of management or those charged with governance</i> | <i>AUP designed to meet the needs of an identified third party</i> | <i>AUP designed to meet the needs of a class of identified users</i> | <i>AUP designed to meet the needs of a broad range of users</i> |
|-----------------------------------|---|--|---|---|
| <i>Distribution of the report</i> | The report will only be distributed to those who sign the engagement letter and include an appropriate restriction on use and distribution. | The report will only be distributed to those who either sign the engagement letter or, in the case of an established form of engagement designed to meet the needs of a regulator or funding agency, are referenced in the engagement letter as a user of the report. In either case, the report would include an appropriate restriction on use and distribution. | As the report will be more widely distributed, a caveat will be needed on the report so that findings are not taken out of context. | As the report will be widely distributed, a standardised form of reporting would be appropriate and would include a caveat so that findings are not taken out of context. |