

March 29, 2017

## **IFAC Small and Medium Practices Committee Response to 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***

### **INTRODUCTION**

The SMP Committee (SMPC) is pleased to respond to the IAASB Agreed-Upon Procedures Working Group (the Working Group) on the Discussion Paper, *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards*. The SMPC is charged with identifying and representing the needs of its constituents and, where applicable, to give consideration to relevant issues pertaining to small- and medium-sized entities (SMEs). The constituents of the SMPC are small- and medium-sized practices (SMPs) who provide accounting, assurance and business advisory services principally, but not exclusively, to clients who are SMEs. Members and Technical Advisers serving the SMPC are drawn from IFAC member bodies representing 22 countries from all regions of the world.

AUP engagements whereby a professional accountant delivers a report on factual findings have become relatively well established in many jurisdictions. For this reason, we support the IAASB retaining this service as is, and revising ISRS 4400<sup>1</sup> accordingly. In our response to the Survey Consultation for the IAASB Work Plan for 2017-2018 (the Work Plan), the SMPC highlighted that this project is very important and expressed concern that the timing of the potential revision of ISRS 4400 is likely to be impacted by the significant volume of projects on the Work Plan and other priorities considered by the IAASB (the Board).

It is important that the Board recognizes the changing global landscape and its implications for practitioners (particularly SMPs). The new environment directly impacts the provision of traditional audit services by SMPs and will likely result in a rise in demand for non-audit assurance services, such as agreed-upon procedures engagements. For example, the 2016 IFAC Global SMP Survey<sup>2</sup> found that revenue from both accounting, compilation and other non-assurance/related services and advisory and consultancy services increased more than audit and assurance in 2016 and this trend is expected to continue. We feel this use could accelerate, especially in the SME sector, were it to be supported by a more up-to-date international standard. Therefore, we continue to strongly believe that the revision of ISRS 4400 should be a high priority for the Board.

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<sup>1</sup> International Standards on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

<sup>2</sup> The 2016 Global SMP Survey Report is available at [www.ifac.org/smp](http://www.ifac.org/smp).



## DETAILED COMMENTS

### 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 Working Group on the role of professional judgment in an AUP engagement and that it should result in objectively verifiable factual findings and not subjective opinions or conclusions. However, there is a strong body of opinion to the effect that the IAASB should acknowledge more clearly the use of professional judgment throughout the performance of AUP engagements and that this does not of itself mean that assurance can be taken from the factual findings.

We believe that professional judgment will consistently be required when undertaking an agreed-upon procedures engagement in complying with the fundamental ethical principles (e.g. IESBA Code of Ethics for Professional Accountants) and quality control requirements (e.g. ISQC 1<sup>3</sup>), as well as agreeing the terms of engagement in discussion with the relevant parties. In some cases practitioners may also need to exercise judgment in determining an appropriate form of words for the report. These are also agreed with the relevant parties.

There are variations in practice. The agreement of terms may be an iterative process and terms may change during the course of the engagement, provided they are for a rational purpose, and are not necessarily fixed at a given point in time. For example, refinements may be made to agreed sample sizes during the course of the engagement. In addition, client wishes may change and practitioners may advise on potential changes to the agreed terms. This is all part of agreeing the terms though. In other cases, AUP engagements involve procedures that are agreed in advance with a high level of specification, so agreeing the terms may not be an iterative process. In both these cases, practitioners do not use judgment in actually performing the agreed procedures.

In addition, we understand there are engagements in certain jurisdictions in which only the nature of the procedures is agreed, but the practitioner uses professional judgment in determining the timing and extent of procedures. The practitioner's report in such cases needs to include a clear description of how the procedures were performed and their nature and extent, so that the users are in position to draw their own conclusions from the practitioner's findings as these are not then factual findings in accordance with ISRS

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<sup>3</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Accounting firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Service Engagements*



4400. The Working Group may wish to consider if, and how, ISRS 4400 could be revised to acknowledge the existence of, or accommodate, such engagements.

It may also be helpful to differentiate between two further types of AUP engagements. The first is those which are negotiated directly between an entity and a practitioner, where the user is the entity. The second is typically governed by regulation, which requires an entity to obtain a report from a professional accountant in accordance with the regulation. The dynamics of these engagements are very different. In the first, the practitioner has more control over the procedures that are performed, compared to the second where the procedures and form of the report are typically directed by the regulations. Regulators may be very inflexible in terms of the procedures to be performed and report wording to be used and not open to suggestions by the professional accountant. The Working Group may benefit from considering its approach to AUPs from both perspectives, as the issues of one may not be relevant to the other.

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

As noted in our response to question 1, professional judgment cannot be required for the actual performance of the procedures as long as the factual findings (as defined) are to be reported. We do not object to the Working Group's proposal of an introductory paragraph along the lines suggested. However, we believe this should only include a requirement for the exercise of professional judgment in relation to the matters stated above.

There is a risk that new requirements may have a material impact on the scope and deliverables of AUP engagements and this would need to be further investigated.

We support the Working Group monitoring the developments on professional skepticism. Given the current definition of professional skepticism in ISA 200<sup>4</sup> (para.15) and ISAE 3000<sup>5</sup> (para.37), we do not believe that professional skepticism can be exercised in an agreed-upon procedures engagement. The current definition is very much designed for assurance engagements only, that involves being alert to conditions indicating possible misstatement and a critical assessment of evidence, for which the exercise of professional judgment is necessary, but is not the case in the performance of procedures in an agreed-upon procedures engagement. If, however, the definition and general applicability of professional skepticism were to be changed through the project on professional skepticism, then the applicability of professional skepticism to agreed-upon procedures engagements would need reconsideration.

It is important for practitioners to remain aware however throughout any engagement of the importance of not being associated with misleading information in accordance with the requirement of professional ethics. This will involve the use of judgment throughout the engagement.

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<sup>4</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with International Standards on Auditing*

<sup>5</sup> ISAE 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*



## **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?*

As the nature of an AUP engagement and the use of the resultant report can vary greatly depending on individual circumstances there should be sufficient flexibility for the parties to agree terms, including on the need for objectivity or independence. The SMPC supports the current position and agrees 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, an appropriate degree of objectivity for all AUP engagements is necessary, but independence as devised for audit and review engagements is not required. Practitioners do not have latitude when reporting factual findings, so whether they are independent or not should not impact the reporting of the facts.

We do not consider that the issue of whether or not a report is restricted is relevant in determining whether or not independence is required.

## **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?*

In principle, we agree that unclear or misleading terminology should be avoided in AUP engagement reports, particularly terms associated with the provision of assurance services. However, in practice this may be problematical in certain situations. For example, a specifically worded standard report may be required by law, by a regulator, or other third party or user. This is particularly common in respect of funding granted to SMEs provided for a specific usage, where a deviation from the required wording of the report by the practitioner could result in the SME being denied funding.

To address such situations, we agree with the Working Group that there is merit for ISRS 4400 requiring the practitioner to add text to define or describe unclear or potentially misleading terminology in the report, to ensure it is no longer unclear or misleading. Otherwise, we agree that ISRS 4400 should prohibit the use of unclear or misleading terminology, in general.

The IESBA Code of Ethics for Professional Accountants prohibits professional accountants from being associated with misleading information. For instance, “a professional accountant shall not knowingly be associated with reports.....where the...information contains a...misleading statement” (para. 110.2).



We believe that irrespective of whether a report is restricted or not, those legitimately receiving the report need to be clear as to the meaning of the words used, since the appropriate use of words relates to the nature of the engagement, not the reader. This requires a greater engagement with, and education of, users and those who request the procedures, about the nature of AUP engagements and the appropriate terminology that should be used.

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

The SMPC fully supports the scope of AUP engagements including non-financial information and other matters.

AUP engagements are an expanding service area in many jurisdictions. We understand that this service is increasingly performed by SMPs. The subject matter for AUP engagements is also extending and may cover many different subject matters besides financial information. Appropriate clarification on this issue in a revised ISRS 4400 is needed.

We agree that ISRS 4400 should address the need for practitioners to consider whether they have the competence to perform AUP engagements on non-financial information, including recourse to experts where an AUP engagement involves subject matter with which a professional accountant may have relatively little technical experience.

### **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 with the Working Group's views that ISRS 4400 should be enhanced for the use of experts in AUP engagements as proposed.

We note that, provided the procedures have been specified in sufficient detail, professional judgment is not required in determining factual findings. Therefore recourse to technical expertise in a non-financial subject matter would not necessarily be essential. However, when technical competence in an area of expertise beyond that commonly held by professional accountants is required, the practitioner may need to draw on an expert to perform all or part of those procedures that require specific technical competence. This "limited use" (to perform specific procedures) contrasts to using the work of an expert under the ISAs and is more



“mechanical” in nature than would be the case in an audit, as the expert is not asked to apply their own professional judgment, but to perform work in a purely technical capacity.

We understand that for AUP engagements for certain specialized industries, such as mining, banking, insurance, property development etc. experts with the relevant knowledge and experience may be involved. This may result in a different understanding of the practitioner’s role and responsibility. Therefore the nature of any such use of experts would need to be considered appropriately in revising ISRS 4400.

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

*Q8. 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 agree that an illustrative report which presents the procedures and corresponding findings in a tabular format, or one that presents each procedure and corresponding finding together would be useful. In many engagements the report is likely to be lengthier than the current illustration. However, as the nature and scope of AUP engagements varies considerably, we do not see much value in developing many detailed illustrations as there should be sufficient flexibility.

### **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 with the Working Group’s view that the report can be provided to a party that is not a signatory to the engagement letter, as long as they have a clear understanding of the AUP and the conditions of the engagement. In practice some clients always provide the AUP reports to stakeholders other than the signatory to the engagement letter and it is difficult for the practitioner to control. For instance, where management is the signatory to the engagement letter, but they have commissioned the work to satisfy a third party that they have a relationship with. There is also some demand for AUP reports that can be made public, and in some jurisdictions it has been established by regulation that certain reports should be made publicly available.

The Working Group needs to fully consider all of the implications and the context of jurisdictional legislation in order to achieve an appropriate balance. For example, an AUP report that is fit for private purpose and agreed between consenting parties may not be fit for the purposes of public dissemination and it could affect the practitioner’s engagement acceptance decision. At the very least, a statement to the effect that it is not for public dissemination may be needed to be placed within the report.



## **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.*

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

We agree with the Working Group's view that the third approach achieves an appropriate balance between addressing the concern regarding unintended parties misinterpreting findings, while allowing the AUP report to be made more widely available. In our view, this would be a suitable solution that addresses the practical demands of clients, avoids misinterpretation of the AUP report and clearly segregates the responsibilities of the practitioner, client and user of the report.

The SMPC is not aware of other approaches to this that the Working Group should consider.

## **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. Including recommendations is out of the scope of an AUP engagement and should be separately delivered either as a value added by-product, or as a separate engagement in its own right. The distinction would need to be clear in the engagement letter.

## **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.*

We are aware that there may be some confusion in the market as to the nature of AUP engagements, with users perceiving more comfort than the practitioner is delivering. Indeed, we understand that some confuse AUP engagements with assurance engagements. Clarification in the introductory paragraphs of a revised ISRS 4400 would be helpful in this regard.

## **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?*



This is a complex issue that goes beyond the scope of any revision of ISRS 4400. We agree with the Working Group that any work to address multi-scope engagements extends into other IAASB pronouncements and should be addressed as a separate project.

In the short-term, the development of non-authoritative guidance, particularly on reporting, may be helpful to assist practitioners when they are engaged to perform multi-scope 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?*

*Suggestions regarding the nature of guidance on multi-scope engagements you think would be helpful and any examples of multi-scope*

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

#### **CONCLUDING COMMENTS**

We hope that the IAASB finds this letter useful. We are committed to helping the Working Group in whatever way we can to build upon the results of the Discussion Paper.

Please do not hesitate to contact me should you wish to discuss matters raised in this submission.

Sincerely,

*Monica Foerster*

Monica Foerster  
Chair, SMP Committee