

## **IFAC Small and Medium Practices Committee Response to the IAASB's Exposure Draft, Proposed International Standard on Related Services 4400 (Revised) *Agreed-Upon Procedures Engagements***

### **INTRODUCTION**

The SMP Committee (SMPC) is pleased to respond to the IAASB (the Board) Exposure Draft, Proposed International Standard on Related Services 4400 (Revised) *Agreed-Upon Procedures Engagements* (ED-4400). This is an important standard with a variety of uses in practice, including funding/ grant programs intended to support specific objectives/ market segments. In our engagement with the Board, we have continued to emphasize how essential the revision of ISRS 4400 is, and how it should be considered as a high priority.

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 23 countries from all regions of the world.

### **GENERAL COMMENTS**

Overall, the SMPC generally supports the approach taken and proposed changes to ISRS 4400 (Revised).

We specifically support the clarification in para. 2 that ISRS 4400 (Revised) applies to the performance of AUP engagements on both financial and non-financial subject matters and the intention to retain the approach whereby practitioners report on the factual results from performing an AUP engagement differentiating this from subjective findings.

In addition, subject to specific concerns outlined in this letter, we support that key concepts, such as professional judgment, independence, engagement acceptance and continuance considerations, use of a practitioner's expert, and AUP restrictions have been enhanced.

We agree that practitioners who undertake AUP engagements must be sufficiently objective, but that they need not necessarily be independent (to the same extent that would apply in regard to an audit, review or other assurance engagement). We note that there may be engagement circumstances where a practitioner's independence will be appropriate. For example, it may be stipulated as part of the specific terms of the engagement, ethical requirements in a specific jurisdiction, firm's policy or otherwise. With one specific exception outlined below, we support transparency in the AUP report in this regard.

In our opinion, the promotion of a broader understanding of AUP engagements remains essential (e.g., where other parties are in a position to specify both the procedures required of a practitioner possibly as well as the form of reporting). This is essential in addressing the expectation gap and dealing with unclear or misleading terminology that may be inadvertently introduced by such other parties in designing AUP for their own purposes.

We therefore appreciate the IAASB's acknowledgment that in some cases (e.g., related to appropriation of grants or other forms of funding) the requirements for specific procedures or reporting format may be set by parties other than the engaging party (e.g., by legislation or within a contract) and consequently terminology may sometimes differ from that used in ISRS 4400 (Revised). In this context, we support the

IAASB's recognition that practitioners may choose to include a definition of an unclear term within their AUP report (A25, second bullet point) and agree that this is a practical solution to issues commonly encountered in practice, where practitioners may be unable to change terms set by others (e.g., in legislation) in formulating their AUP report. However, the IAASB could also consider whether there is a need for a broader education campaign to stakeholders, such as Government institutions and regulators who develop legislation that draws upon international professional standards to enhance knowledge and awareness of the nature and scope of AUP engagements.

We specifically support the inclusion of clear documentation requirements in para. 34, which we believe to be reasonable. We suspect that practitioners subject to engagement quality inspections may also choose, or must, document other matters such as engagement acceptance procedures, as well as certain quality control measures taken, but agree that documentation of such specifics should not be required under ISRS 4400 (Revised) in all cases.

As there is requirement to include in the AUP report a reference to ISQC 1/ equivalent and to independence (where independence is applicable), we suggest that consideration is given to whether it would be appropriate for the AUP report to similarly inform readers that the practitioner adheres to the Code of Ethics (name the jurisdiction of the ethical requirements) applicable to the engagement and specifically for this AUP.

We agree with the IAASB that written representations from the engaging party or management, unless specified as part of the procedures agreed upon, are not needed in an AUP engagement, since the practitioner reports on the factual results arising from the performance of the agreed-upon procedures. The practitioner does not provide an assurance conclusion in relation to subject matter information prepared by another measurer or evaluator as part of an attestation assurance engagement, and therefore requires no representations with respect to assertions made by management or the engaging party. In addition, the agreed-upon procedures are performed on the basis of information given by the engaging party or management, which would be stated in the agreed-upon procedures and therefore there is no "completeness of information" issue per se.

We are therefore concerned that the requirement to consider whether it is necessary to request written representations from the engaging party may undermine the standard and create expectations or misunderstanding. For example, to obtain evidence beyond agreed-upon procedures. Whilst we agree that guidance in the application material on the possibility of requesting written representations as an agreed-upon procedure might be useful, we disagree that the practitioner should be required to consider whether to request written representations other than in such circumstances and suggest that para. 27 is deleted.

## **DETAILED COMMENTS**

We have outlined our responses to the questions (in bold) in the ED below.

### **Overall Question**

*Public Interest Issues Addressed in ED-4400*

#### **1) Has ED-4400 been appropriately clarified and modernized to respond to the needs of stakeholders and address public interest issues?**

Overall, we believe that ED-4400 has been appropriately clarified and modernized to respond to the needs of stakeholders and address public interest issues. We support the clarification in para. 2 supported by A1 and A2 that ISRS 4400 (Revised) applies to the performance of AUP engagements on both financial and

non-financial subject matters. However, the term “subject matters” might be confused with the term “underlying subject matter” used in ISA 3000 (Revised), so we suggest that the term be changed to “matters”.

## **Specific Questions**

### *Professional Judgment*

**2) Do the definition, requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role of professional judgment plays in an AUP engagement?**

We support the IAASB's view that professional judgment is not suspended in an AUP engagement and to distinguish that it is uniquely applied in these circumstances. We agree that considerable professional judgment will be required in undertaking almost all activities, including those noted in para. A15.

However, as stated in our [response](#) to the Discussion Paper, professional judgment (which, by definition, always involves a choice between alternative courses of action) cannot be required for the actual performance of the procedures because the findings would no longer represent factual findings. The nature of the engagement would also become blurred compared to an assurance engagement. ISRS 4400 (Revised) follows extant ISRS 4400 in that the performance of the agreed-upon procedures continues to result in a report on the findings of factual results, i.e. there is little subjectivity involved (see the requirement in para. 20 (b)). In our opinion, paragraph 18 (supported by A14) needs to be clearer about where professional judgment can be applied, and more importantly, where not. In this context, we also disagree with the last sentence of para. A16 and suggest it be deleted or clarified: *“The more a procedure requires professional judgment, the more the practitioner may need to consider whether the condition that the agreed-upon procedures and findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations is present”*.

The SMPC also notes that the information in paragraph A10: *“different practitioners performing the same procedures are expected to arrive at the same results”* is key to a proper understanding of an AUP under ISRS 4400 (Revised). It would be helpful to include this text within the definition section (i.e., “findings”).

### *Practitioner's Objectivity and Independence*

**3) Do you agree with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)? If not, under what circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the IAASB would discuss the relevant independence considerations with the IESBA?**

The SMPC agrees with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective). Not having this as a precondition permits greater flexibility, which is of benefit to SMPs and SMEs. In addition, practitioners do not have latitude when reporting factual findings, so whether they are independent or not should not impact the reporting of the facts.

**4) What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the Explanatory Memorandum, and the related requirements and application material in ED-4400? Do you believe that the practitioner should be required to make an independence determination when not required to be**

**independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.**

We agree that a specific clarification is useful when the AUP engagement is not subject to an independence requirement.

We also agree that the AUP report must state that the practitioner has fulfilled relevant independence criteria (together with the basis for determining independence, where applicable) when a practitioner carrying out an AUP engagement is required to be independent.

We further agree that, where applicable, the AUP report may state that the practitioner has fulfilled relevant independence criteria (together with the basis for determining independence, where applicable), even when the practitioner is not required to be independent, and note that this remains optional, as the alternative is to include a specific clarification that the AUP engagement is not subject to an independence requirement.

However, we question the use to readers of a requirement to report an additional confirmation that a practitioner is not independent, since this can only be applicable where this fact has been established, but not where independence has not been explored (the extant requirement (para 7 of existing ISRS 4400) should not be included if the Board allows that the practitioner not to check independence). It may be onerous in some cases and also adds confusion for the users. In our view, clarification that the AUP engagement is not subject to an independence requirement is sufficient.

*Findings*

**5) Do you agree with the term “findings” and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED-4400?**

We do not agree with changing the term “factual findings” to “findings” and the related definitions and application material (notwithstanding that the proposed definition of “findings” clarifies that these are indeed factual in nature).

We are concerned that it may cause confusion and could be perceived as indicative of a change in substance, which is not the intention of the IAASB. We also question the logic for making this change (see EM para. 27) as ISRS 4400 (Revised) continues to relate solely to factual findings (i.e. there can be no findings that are not factual results).

The word “findings” without “factual” is not necessarily commonly understood to mean only factual results in many languages, including English. A glance at English dictionaries shows that the term “finding” in the English language can be used synonymously with “discovery”, “conclusion” and “information” – none of which necessarily need to be factual. We note that legal dictionaries in the English language refer to “findings of fact”, which implies that legally speaking, not all findings need to be factual. We also note that IAASB pronouncements use the term “findings” in a number of instances to other than factual results.<sup>1</sup>

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<sup>1</sup> For example: ISQC1.A20 first bullet, in which findings are “evaluated for reasonableness”; ISA 240 Appendix 2, in which the “unreasonableness” of findings is determined; ISA 260.16 & A49 fifth bullet, in which auditors’ views about significant qualitative aspects of the entity’ accounting practices are included as “significant findings”; ISA 315.A9, in which identified control deficiencies or risks are included as findings; ISA 315.A80, which includes identified deficiencies of internal control as a finding; ISA 500.A48 first bullet, which addresses “evaluating the reasonableness” of findings; ISA 620.12(a) and A34, which refer to the “reasonableness” of findings; ISA 700.40 (a) and the auditors’ reports, in which significant deficiencies in internal control are included as findings; ISRE 2400.A66, in which the reviewer’s views about significant qualitative aspects of the entity’ accounting practices are included as “significant findings”.

We note the concerns the IAASB has expressed (see EM para. 34) regarding the potential for misleading terminology to contribute to ongoing market confusion over what an AUP entails and its impact on the expectation gap. This is an issue encountered in practice, where AUP engagements are specified in contracts or legislation drafted by persons less familiar with the IAASBs pronouncements concerning assurance and related services engagements. It may therefore be helpful for the application material in A23 to point practitioners to additional words and phrases that ought to be avoided in a report because they indicate that the findings are not factual, like “in our view”, “from our perspective”, or “we take the position that”.

Should the IAASB continue to use the term “findings” rather than “factual findings”, it would be important to be transparent to users and the engaging party about the meaning of the term “findings”. For instance, the requirements for the practitioner’s report should require an explanation that “findings” mean “factual results”. Thus, this explanation should also be included in both the example report and engagement letter.

#### *Engagement Acceptance and Continuance*

### **6) Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED-4400, appropriate?**

We agree that the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED-4400, are appropriate. However, there are certain further matters that, when relevant, would need to be considered during engagement acceptance and continuance (e.g., related to a practitioner’s expert etc.) and thus should also be mentioned in this section.

#### *Practitioner’s Expert*

### **7) Do you agree with the proposed requirements and application material on the use of a practitioner’s expert in paragraphs 28 and A35-A36 of ED-4400, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED-4400?**

In principle, we agree that ED-4400 should be enhanced for the use of experts in AUP engagements, but it is not yet as clear as it could be as to situations where a practitioner has recourse to an expert. Paras. 28 (b) and 31 make clear that the IAASB does not intend the practitioner’s responsibility for performing the procedures and reporting the findings to be reduced by the involvement of the expert, as the practitioner must be directly involved in work of an expert, to an extent sufficient to take responsibility for the finding.

In the SMPC there were mixed views on how much the practitioner should be involved, in order to take responsibility for the findings. For example, some support A35 which includes using the work of a practitioner’s expert in performing the procedures by applying the expert’s competence and capabilities where it is not practical for the practitioner to undertake the procedure (for example, using an electron microscope to examine some mineral samples and measure the size of the crystalline structure). However, others are concerned that if the practitioner does not have sufficient experience and expertise they should not be undertaking the engagement at all, as they cannot take responsibility for the findings i.e. as it is the performance of an AUP that gives rise to a finding on that procedure, if it was carried out by an expert it would result in a finding(s) of that expert, not the practitioner.

Therefore, as explained below, the determination of the extent of the practitioner’s involvement will be crucial at the engagement acceptance stage, and practitioners would also have to be alert to the potential for post-acceptance changes in the AUP to influence this determination as the AUP progresses. Where this

is not the case, there would have to be a separate engagement undertaken by the expert and not the practitioner.

There may be challenges for practitioners to meaningfully assess the expert's competence and capabilities. Furthermore, para.28 (a) and para 28 (b) requires an advance determination of the practitioner's ability to be sufficiently involved in the work of the expert. In our view, this is a prerequisite for the practitioner to accept the engagement, which we suggest would be more appropriately dealt with in the section on engagement acceptance and continuance. In paragraph 28, before issuing the AUP report, the practitioner should then be required to determine that the level of involvement actually achieved in respect of the performance of each AUP giving rise to the relevant finding(s) was indeed sufficient to warrant taking responsibility for the finding(s) included in the AUP report.

In addition, we suggest that the requirements of para. 28(c) should be proactive rather than retroactive. The practitioner must instruct the expert appropriately as to their respective roles in advance of any AUP being performed and later determine that this has indeed been achieved. Where special technical competence is required, it would need to be agreed-upon with the engaging party and the AUP report would also need to describe who performed the procedures and note the special technical competence required. ISRS 4400 (Revised) would further need to require the AUP report clarify the respective responsibilities of the practitioner and the expert.

We are also concerned that the definition of "practitioner's expert" in 13 (i), refers to "expertise in a field other than assurance". Expertise in assurance engagements is not needed for a practitioner to be able to perform an AUP engagement. Indeed, globally many accountants in public practice – and sole practitioners and SMPs in particular – will not perform assurance engagements. Our understanding is therefore that the expert under ISRS 4400 (Revised) would have expertise that the practitioner (i.e., all professional accountant in public practice adhering to ethical requirements of competence and due care) will not be expected to have. The term "assurance" should therefore be replaced by "agreed-upon procedures engagements".

#### *AUP Report*

**8) Do you agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?**

We agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report. If it is considered appropriate to indicate the report is intended solely for the engaging party and the intended users, this fact should be included in the engagement letter, as well as the AUP report.

Para. A9 states that "*the engaging party may be, under different circumstances, the responsible party, a regulator or other intended user*". One suggestion is for the application material to explain how each such scenario might impact the AUP engagement from a practical point of view – e.g., ensuring practitioner access to necessary information when the engaging party is not the responsible party.

**9) Do you support the content and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 2 of ED-4400? What do you believe should be added or changed, if anything?**

We support the content and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 2 of ED-4400.

### **Request for General Comments**

**10) In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:**

- (a) Translations—recognizing that many respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-4400.**

We have not identified any potential translation issues to date.

- (b) Effective Date—Recognizing that ED-4400 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for AUP engagements for which the terms of engagement are agreed approximately 18-24 months after the approval of a final ISRS. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISRS. Respondents are also asked to comment on whether a shorter period between the approval of the final ISRS and the effective date is practicable.**

We support the proposed effective date of between 18-24 months after the approval of a final ISRS, but believe that 24 months would be preferable, especially where translation will be required. As ED-4400 is a substantial revision and given the need for national due process and translation, we do not consider this should be shorter than 18 months, especially as early application would be permitted.

### **CONCLUDING COMMENTS**

We hope that the IAASB finds this letter useful. We are committed to helping the Board in whatever way we can to build upon the results of the Exposure Draft.

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

Sincerely,



Monica Foerster

Chair, SMP Committee