

DRAFT**IAASB Agreed-Upon Procedures Working Group Discussion Paper****Exploring the Growing Demand for Agreed-Upon Procedures Engagements and Other Services and the Implications for the IAASB's Standards**

This publication has been prepared by the Agreed-Upon Procedures (AUP) Working Group (the Working Group) of the International Auditing and Assurance Standards Board (IAASB). The Working Group was formed in 2015 to assist the IAASB in its information-gathering activities to understand the use of AUP engagements, national developments in relation to standards addressing AUP engagements, and broader market needs.

This publication does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override the International Standards issued by the IAASB.

1. The purposes of this Discussion Paper are to:
 - Highlight key features and benefits of AUP engagements; and
 - Obtain views from stakeholders on the Agreed-Upon Procedures Working Group's (the Working Group) views in this Discussion Paper to help inform the development of a standard-setting project proposal to revise ISRS 4400¹ and consider other activities that may be necessary.
2. This Discussion Paper explores:
 - Current demands for AUP engagements, the implications for standard-setting by the IAASB, and in particular, the extent to which users and practitioners find existing requirements and guidance helpful in producing an AUP report that is valued by users (Section II); and
 - The demand for engagements meeting emerging needs using a combination of procedures derived from audit, review, other assurance, compilation and AUP engagements. (Section III).

¹ International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

What are Agreed-Upon Procedure Engagements?

ISRS 4400 is the standard within the IAASB pronouncements that deals with AUP engagements.

Under ISRS 4400, an AUP engagement involves a practitioner performing procedures that have been agreed to by the practitioner, the entity and any appropriate third parties, and reporting on the factual findings resulting from performing the procedures. Users of the report assess for themselves the procedures performed and findings and draw their own conclusions. In conducting an AUP engagement, the practitioner does not obtain assurance or express an opinion, but is merely performing procedures and reporting and reporting factually on any findings as a result of performing those procedures.

In contrast, an assurance engagement involves the evaluation or measurement of a subject matter (such as financial information, controls or compliance activities) against a set of criteria (such as a financial reporting framework, control objectives or legislation/regulation/contractual requirements) to reach a reasonable assurance conclusion (such as an audit opinion) or a limited assurance conclusion (such as a review conclusion). A reasonable assurance conclusion conveys the practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria. A limited assurance conclusion conveys whether, based on the procedures performed and evidence obtained, anything has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated.

The key difference between a factual finding and an assurance conclusion is that:

- For a factual finding, objective observers who made their observations at the same time and in the same context would arrive at the same findings.
- An assurance conclusion involves the exercise of professional judgment regarding the sufficiency and appropriateness of evidence obtained.

Engagement Type	AUP	Audit	Review
Standards	ISRS 4400	ISAs	ISREs
Work effort	Perform the agreed-upon procedures	Risk assessment and audit procedures that respond to the risks identified, to obtain sufficient appropriate evidence to support the audit opinion	Primarily inquiry and analytical procedures, to obtain sufficient appropriate evidence to support the review conclusion
Report	Report of factual findings	Opinion (positive assurance).	Conclusion (negative assurance)

I. Introduction

Who Uses an AUP Report? Why Are AUP Engagements Performed and What are their Benefits?

3. Regulators, funding bodies, creditors and others often use AUP reports to complement information such as audited financial statements and loan or grant applications. The requests for practitioners to perform AUP engagements relate to financial and non-financial information. Appendix A provides examples of both.
4. The demand for AUP engagements continues to grow. For larger entities, the demand for AUP engagements is driven in part by the growth in regulation and the need for increased accountability around funding and grants. For smaller entities, the increase in audit exemption thresholds in many jurisdictions may affect demand, prompting stakeholders to look for alternatives to audits. For example, banks in some jurisdictions request AUP engagements on receivables and inventory in lieu of audited financial statements.
5. Although AUP engagements do not result in an assurance conclusion, they are valued because:
 - They can be tailored to address specific needs in a more efficient and targeted manner than audits or reviews; and
 - They are performed by professional accountants with professional competence and due care.
6. In some cases, AUP engagements are used in combination with other services (referred to as “multi-scope engagements” below).

Why Is the IAASB Undertaking Work on AUP Engagements?

7. ISRS 4400 was developed over 20 years ago and it continues to be widely used in many jurisdictions. Significant changes in the business environment, including growth in regulations and increased accountability mean that the performance of AUP engagements, either as a stand-alone engagement or in combination with other engagements, is increasing.
8. In a number of jurisdictions, national auditing standard setters (NSS) and professional accounting bodies such as the Australian Auditing and Assurance Standards Board (AUASB) and the American Institute of Certified Public Accountants (AICPA) have undertaken or commenced work to explore how the AUP engagements can be enhanced in the light of this increasing demand, including whether changes to the procedures performed and the report are needed. These developments suggest a need for the reconsideration of AUP engagements at the global level by IAASB.

Benefits of AUP Engagements

- Flexibility, as the service can be tailored to different circumstances and focused on individual items. For example, factual findings may be reported with respect to eligibility of expenditures claimed from a funding program.
- Users may request specific procedures to be performed, as well as provide the format of required reporting.
- An AUP report can be designed to satisfy users' specific needs.
- An AUP report can supplement the audited financial statements.

9. Accordingly, the IAASB included a project to revise ISRS 4400 and to consider more holistic issues related to AUP engagements in its *Work Plan for 2015-2016* (the Work Plan).² The Work Plan indicated that:

In relation to more holistic issues involving AUP and other similar engagements addressed by the IAASB's standards — As the IAASB contemplates work on the topic of AUP in the next Work Plan, it has been noted that “hybrid” engagements, using a combination of procedures derived from review, compilation and AUP engagements, are being performed in some jurisdictions as a means of meeting the emerging needs of small and medium sized entities, among others. Accordingly, wider consideration will be given to exploring these evolving types of engagements to consider whether standard-setting or other activities may be appropriate, in light of the existing standards that may be applicable to these services in the IAASB's current suite of standards.

10. To inform its deliberations, in early 2015 the IAASB established a Working Group to study the topic. The Working Group consists of representatives from NSSs that have recently completed or are in the process of developing AUP engagement standards, members of advisory groups representing small and medium practices (SMPs), and others who actively deal with AUP engagements in various capacities.
11. As part of the Working Group's information-gathering efforts, it considered relevant national developments, focusing on:
- The use of AUP engagements and what motivated NSS to make changes to their national standards, including how the views of users of AUP reports were taken into account;
 - The nature and extent of changes to ISRS 4400 in various jurisdictions, and the key issues that were deliberated at the national level in making them; and
 - The implications of different approaches that may be taken by the IAASB's revision of ISRS 4400.
12. The Working Group has conducted outreach with users of AUP engagements such as securities regulators and funding agencies, organizations subject to regulations such as the Organization for Economic Co-operation and Development, NSS in Africa, Asia, Europe and North America, and practitioners performing AUP engagements, including representatives from large multi-national firms and the International Federation of Accountants' SMP Committee. The main issues raised included the need for:
- Raising awareness about the value and limitations of AUP engagements to enhance users' knowledge of such engagements.
 - Modernizing ISRS 4400 by drafting it in the Clarity format.³

² <http://www.ifac.org/system/files/publications/files/IAASB-Work-Plan-2015-2016.pdf>

³ In March 2009 the IAASB completed its Clarity Project. In that project all International Standards on Auditing (ISAs) were redrafted in the clarity format. The key characteristics of a standard drafted in the clarity format are:

- Clear statement of objective in each ISA, supported by requirements
- Each requirement introduced by the phrase “the auditor shall”

- Considering how the exercise of professional judgment can be taken into account.
- Exploring how the public interest affects AUP engagements.

What Has Been Discussed by the IAASB and Its Consultative Advisory Group to Date?

13. The IAASB and its Consultative Advisory Group have had the opportunity to consider the results of the Working Group's information-gathering activities and have started to discuss numerous issues, including:
 - Whether AUP engagements continue to fulfill demands for related services; and
 - What revisions may be needed to ISRS 4400 to ensure that it is "fit for purpose" in the current environment.
14. The IAASB agreed that the development of a Working Group Discussion Paper exploring issues and soliciting feedback from stakeholders would help inform the development of a standard-setting project proposal to revise ISRS 4400 and to consider other activities that may be necessary.

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- Improved readability and understandability from new structure and additional drafting enhancements
 - Considerations specific to small- and medium-sized entities and public sector entities highlighted in application material

II. Agreed-Upon Procedures Engagements

15. AUP engagements are widely used in practice either as stand-alone engagements or as elements within multi-scope engagements (explored further in Section III of this paper). The Working Group's outreach confirmed that many stakeholders welcomed the addition of the AUP engagements project in the Work Plan. (In the remainder of this Discussion Paper, references to AUP engagements comprise both stand-alone engagements and elements of multi-scope engagements.)
16. Stakeholders have different views about the way AUP engagements are positioned in the IAASB's International Standards, in relation to both the design and work effort in these engagements processes, as well as the resulting report. Some stakeholders have questioned why ISRS 4400 prohibits the expression of an assurance conclusion on the subject matter, particularly when the practitioner is an experienced auditor who may have audited the entity's financial statements and expressed an opinion on them.
17. Other stakeholders understood the differences between the work effort involved in AUP engagements and assurance engagements, and the distinction between factual findings and an assurance conclusion and noted that AUP engagements are valued because they focus on matters of interest to users, often complementing other information such as loan or grant applications and annual financial statements.
18. Stakeholders encouraged the development of material to promote understanding of the nature and benefits of AUP engagements. This Discussion Paper is intended to cover these issues.
19. The primary objective of the Working Group is to determine what modifications, if any, are needed to issues identified as requiring attention by one or more stakeholders. These issues are :
 - The use of professional judgment in an AUP engagement;
 - Professional skepticism;
 - The use of ambiguous terminology in describing procedures or findings;
 - AUP report restrictions;
 - The format of the AUP report;
 - Performing AUP engagements on non-financial information;
 - Using the work of others;
 - Users who are not parties to the engagement agreement;
 - Recommendations in conjunction with AUP engagements; and
 - The role of independence in AUP engagements.

The Use of Professional Judgment in an AUP Engagement

20. ISRS 4400 states that the objective of an AUP engagement is for the practitioner to "carry out procedures of an audit nature to which the practitioner and the entity and any appropriate third

parties have agreed and to report on factual findings.”⁴ ISRS 4400 goes on to explain that as the practitioner simply provides a report of the factual findings of AUP, no assurance is expressed. Instead, users of the AUP report assess for themselves the procedures performed and findings reported by the practitioner, and draw their own conclusions from the practitioner’s work.⁵

21. ISRS 4400 is silent on the issue of professional judgment. In the view of some stakeholders procedures in AUP engagements are specified precisely enough to avoid the need for exercising professional judgment when performing the procedures. Other stakeholders noted that the same procedure can be performed in AUP engagements or audit engagements and that the key difference between an AUP and an audit procedure is that an AUP has been agreed with another party. Users would not expect practitioners to exercise any less professional judgment simply because the procedure was performed in an AUP engagement rather than in an audit engagement.
22. When and how professional judgment is exercised in AUP engagements are critical considerations. The Working Group is not convinced that experienced and competent practitioners can suspend the exercise of professional judgment. Practitioners bring professional judgment to bear on decisions about acceptance of the engagement, planning the work, being a party to the agreement of specific procedures, and the documentation needed. In AUP engagements, practitioners exercises professional judgment in the context of professional competence and due care. In contrast, in assurance engagements, practitioners exercise professional judgment in the context of assessing risks, assessing the sufficiency and appropriateness of evidence and in forming an overall conclusion in addition to areas such as acceptance and planning as in AUP engagements.
23. Practitioners are required to exercise professional competence and due care when conducting AUP engagements. The principle of professional competence and due care imposes the following obligations on practitioners:
 - To maintain professional knowledge and skill at the level required to ensure that clients receive competent professional service; and
 - To act diligently in accordance with applicable technical and professional standards when performing professional activities or providing services. Competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such a service.
24. In the Working Group’s view, practitioners’ professional judgment in the context of exercising professional competence and due care in AUP engagements may apply in the following areas , for example:

<i>Engagement stage</i>	<i>Examples of professional judgment in the context of exercising professional competence and due care</i>
Acceptance of an AUP engagement	<ul style="list-style-type: none"> • Determining appropriate actions to take if the practitioner becomes aware that the procedures specified by the entity

⁴ ISRS 4400, paragraph 4

⁵ ISRS 4400, paragraph 5

	<p>serves no rational purpose.</p> <ul style="list-style-type: none"> • Advising the entity on the nature, extent and timing of the procedures (as long as the entity and any third parties involved take responsibility for the procedures being appropriate for their purposes). • Determining the appropriate users of the AUP report and the parties to whom the report should be restricted. • Determining appropriate actions to take if the prescribed procedures include terminology that may be confusing or misleading.
Performing the engagement	<ul style="list-style-type: none"> • Determining appropriate actions to take if during the course of the engagement: <ul style="list-style-type: none"> ○ The practitioner becomes aware of a need to modify a procedure. ○ The entity or any third parties involved request a procedure to be modified. ○ The practitioner becomes aware of matters that may indicate fraud, error or non-compliance with laws or regulations. ○ the practitioner becomes aware of matters outside the AUP engagement that call into question the integrity of the subject matter of the AUP engagement (e.g., if during the course of applying AUP on an entity's internal control, the practitioner becomes aware of a material weakness by means other than the AUP engagement).

25. ISRS 4400 does not specify appropriate actions in the circumstances identified in the table above. In the Working Group's view, appropriate actions include withdrawing from (or not accepting) the engagement and seeking legal advice.

Q1. Do you agree with the Working Group's views regarding the use of professional judgment in an AUP engagement? Why or why not?

Q2. In your view, what are the appropriate actions that may be undertaken by the practitioner in the circumstances set out in paragraphs 24?

Please provide other examples on the use of judgment in an AUP engagement.

Professional Skepticism

26. An issue related to professional judgment is professional skepticism. The Working Group notes that the IAASB's Enhancing Audit Quality initiative is exploring the issue of professional skepticism in the context of audit engagements. The Working Group further notes that a number of NSSs are dealing with this issue in their national AUP standards. The Working Group is actively monitoring these developments, and is not seeking input on professional skepticism in relation to AUP engagements at this time.

The Use of Ambiguous Terminology in Describing Procedures or Findings

27. In an AUP engagement, the practitioner reports on factual findings. Users of the report assess for themselves the procedures and findings reported by the practitioner and draw their own conclusions from the practitioner's work.⁶
28. Terms are ambiguous when they are given technical meanings in standards that differ from their normal English meaning (e.g., "review"), or are otherwise not sufficiently specific. The use of ambiguous terms in an AUP report can cause users to misunderstand or misinterpret the findings. Furthermore, for users to assess for themselves the procedures and findings reported by the practitioner and to draw their own conclusions, the Working Group is of the view that the procedures agreed upon between the practitioner and the entity and any appropriate third parties should be sufficiently specific to avoid the need for exercising professional judgment to a significant extent on the performance of procedures. While practitioners should, in the Working Group's view, exercise professional judgment in the context of professional competence and due care in AUP engagements, there should not be ambiguity in the procedures agreed.
29. There is a risk that any ambiguous wording may lead users to incorrectly assume that the practitioner's efforts were greater than they actually were. In some cases, law, regulation or contract may specify procedures or report wording that are ambiguous. An example of an ambiguous procedure may be: "Review cost allocations to determine if they are reasonable". Such a procedure would likely require interpretation as to:
- The work effort involved in the "review" (for example, the word "review" may mean performing a limited assurance engagement on the cost allocation or agreeing the underlying costs to supporting documentation and recalculating the allocation).
 - What constitutes a "reasonable" allocation.
30. Similarly, a statement in a report such as "Entity X has complied with Regulation A on the sufficiency of liability insurance coverage" would not be appropriate in an AUP report because of the need for a significant extent of judgment in determining what constitutes "sufficient coverage". More appropriate reports on the AUP procedures and findings might be worded as follows in such circumstances:

⁶ ISRS 4400, paragraph 5

<p>Request and obtain confirmation from the Dealer Insurance Broker as at [period ending <date>] as to the insurance coverage maintained with the Insurance Underwriter.</p> <p>Compare the insurance coverage to determine whether it meets or exceeds the minimum required coverage limit as set out in Regulation A of:</p> <ul style="list-style-type: none">• \$1,000,000 for single loss limit; and• \$10,000,000 for aggregate loss limit.	<p>We requested confirmation on April 2, 20XX and received confirmation on April 21, 20XX from XYZ Insurance Broker.</p> <p>We determined that the insurance coverage of:</p> <ul style="list-style-type: none">• \$3,000,000 for single loss limit; and• \$11,000,000 for aggregate loss limit <p>exceeds the minimum required coverage limit as set out in Regulation A.</p>
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31. When regulations or contracts prescribe ambiguous wording to be included in the AUP report, failure to use the prescribed wording in the AUP report may result in a loss of funding.
32. To avoid potential misunderstanding while allowing sufficient flexibility to meet regulatory or contractual requirements, the Working Group believes there may be merit in a revised standard to:
 - Prohibit the use of ambiguous wording unless the wording is required by regulations or contracts;
 - If ambiguous wording is required by regulations or contracts, the practitioner may consider discussing with the engaging party and the user about whether:
 - It is possible to define the required terms with reference to the required procedures in the AUP report; and/or
 - An assurance engagement (as opposed to an AUP engagement) would be more appropriate.
33. The Working Group contemplates including, in the revised AUP engagement standard, a list of examples of words that are normally considered to be sufficiently descriptive of the action performed by the practitioner and examples of ambiguous terms.
 - Terms to describe procedures performed and used in the AUP report that avoid ambiguity are characterized by a level of specificity sufficient to avoid the need to exercise professional judgment to a significant extent, including for example:
 - Inspect
 - Confirm
 - Compare
 - Agree
 - Trace
 - Inquire
 - Recalculate
 - Observe

- Mathematically check
- Conversely, the following terms to describe actions (unless defined to indicate the nature, timing, and extent of the procedures associated with these actions) may be considered to be ambiguous because they are insufficiently specific or have an uncertain meaning:
 - Note
 - Evaluate
 - Analyze
 - Check
 - Test
 - Interpret
 - Verify
 - Examine
- Some terms may not be acceptable as they are understood to have a specific technical meaning in standards or are otherwise inappropriate for an AUP engagement. Such terms may include:
 - Audit
 - Review, general review, limited review
 - Certify, certification
 - Assure
 - Ensure
 - Conclude, conclusion
 - Fair presentation
 - True and fair

Q3. *Do you agree with the Working Group's view that ambiguous terms should be prohibited unless required by regulations or contracts? Why or why not?*

Q4. *Do you agree with the categorization and examples of terms provided in paragraph 31? Why or why not?*

AUP Report Restrictions

34. ISRS 4400 requires that the practitioner's report include "a statement that the report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results."⁷

⁷ ISRS 4400, paragraph 6

35. There is a need to clarify whether the restriction applies to the use or distribution of the report. Paragraph 12 of ISRS 4400 suggests that the engagement letter includes a statement that the **distribution** of the report of factual findings would be restricted to the specified parties who have agreed to the procedures to be performed. However, paragraph 1 of the public sector perspective notes that “the report in a public sector engagement may not be restricted only to those parties that have agreed to the procedures to be performed, but made available also to a wider range of entities or people.”
36. While a restriction on the distribution of the AUP report may reduce the likelihood of readers misinterpreting findings, many stakeholders indicated that restrictions on the distribution of the report is problematic as the AUP report may be required to be provided to other parties (or posted online) by regulation or contracts.
37. In the Working Group’s view, it may not be practicable for a practitioner to restrict the distribution of the report. Once submitted, the practitioner has no control over the distribution of the report. The Working Group acknowledges that other jurisdictions have prohibited the practitioner from accepting an AUP engagement if the distribution of the AUP report cannot be restricted to the engaging party and any intended users identified. However, the Working Group is of the view that restricting the use (but not distribution of the AUP report) addresses the concern regarding unintended parties misinterpreting findings while allowing the report to be made available to a wider range of entities or people.

Q5. Do you agree with the Working Group’s view that the use, but not the distribution, of AUP reports should be restricted? Why or why not?

The Format of the AUP Report

38. The practitioner’s report on an AUP engagement summarizes the factual findings from the procedures performed. It represents an important communication document intended for users. Stakeholders suggested that the illustrative example of practitioner findings in Appendix 2 of ISRS 4400 could be improved and pointed to the IAASB’s auditor reporting initiative as a good illustration of innovative thinking to improve communications.
39. The example AUP report in ISRS 4400 lists four procedures followed by four corresponding findings. While such a “short-form” AUP report may work well when there are relatively few procedures, the Working Group’s view is that an illustrative report that presents the procedures and corresponding findings in a tabular format or one that presents each procedure and corresponding finding together, will likely facilitate better communication, particularly for engagements involving many procedures. Appendix B presents illustrative examples of such procedures and findings.

Q6. Do you agree with the Working Group’s view for improvements to the illustrative AUP report? Why or why not?

We would be particularly interested in receiving illustrative reports that you believe communicate factual findings well.

Performing AUP Engagements on Non-Financial Information

40. ISRS 4400 is limited to AUP engagements on financial information. However, ISRS 4400 also states that ISRS 4400 “may provide useful guidance for engagements regarding non-financial information, provided the [practitioner] has adequate knowledge of the subject matter in question and reasonable criteria exist on which to base findings.”
41. AUP engagements are increasingly performed on non-financial information. For example, funders often request AUP engagements on internal controls in addition to an audit of the financial statements. Accordingly, the Working Group is of the view that the scope of ISRS 4400 should be broadened to include such non-financial information. Appendix A provides examples of AUP engagements performed on non-financial information.
42. In deciding whether to accept an AUP engagement dealing with non-financial information, the Working Group is of the view that the practitioner should:
 - Have sufficient competence in the subject matter area to accept responsibility for the engagement, and
 - Be satisfied that the engagement team collectively have appropriate competence to perform the engagement.

Q7. *Do you agree with the Working Group’s view that the scope of ISRS 4400 should be broadened to include AUP on non-financial information? Why or why not?*

Q8. *Do you agree with the preconditions relating to competence as set out in paragraph 40? Why or why not?*

Using the Work of Others

43. Stakeholders indicated that, in some cases, practitioners use the work of others, including the work of an expert, in an AUP engagement. For example, an AUP engagement may involve the use of the work of an engineer or lawyer in dealing with engineering or legal aspects of a contract.
44. Although ISRS 4400 does not deal with the use of others in an AUP engagement, the Working Group notes that a number of national AUP engagement standards address such circumstances. In the Working Group’s view, when using the work of others including another practitioner, internal auditor or expert in an AUP engagement, the practitioner should be required to evaluate:
 - Their objectivity and technical competence in performing the procedures;
 - Whether the nature, timing and extent of procedures performed agrees with the procedures agreed in the terms of engagement; and
 - Whether the factual findings reported by others adequately describe the result of the procedures performed.

- Q9. *Do you agree that the revised standard should deal with using the work of others? Why or why not?*
- Q10. *Do you agree with the Working Group's views regarding the practitioner's responsibilities when using the work of others? Why or why not?*

Users who are Not Parties to the Engagement Agreement

45. A core benefit of an AUP engagement is that intended users of the AUP report can decide on and take responsibility for the procedures performed. In many cases, the practitioner can be satisfied that intended users take responsibility for the procedures performed by obtaining an acknowledgement of the responsibility of users for the sufficiency of procedures performed for their intended purposes from the intended users (or their representatives). In other cases, a funder, regulator or other user of the AUP report may set out the procedures to be performed, but not be a party to the engagement agreement.
46. ISRS 4400 requires the practitioner to “ensure with representatives of the entity and, ordinarily, other specified parties who will receive copies of the report of factual findings, that there is a clear understanding regarding the agreed procedures and the conditions of the engagement.”⁸
47. However, ISRS 4400 also acknowledges that, in certain circumstances, the practitioner may not be able to discuss the procedures with all the parties who will receive the report. In such cases, the practitioner may consider, for example, discussing the procedures to be applied with appropriate representatives of the parties involved, reviewing relevant correspondence from such parties or sending them a draft of the type of report that will be issued.⁹
48. In the Working Group's view, the availability of the Terms of Reference set out by the funder, regulator or other user would, in most cases, be sufficient for the practitioner to determine that the user has a clear understanding of the AUP and the conditions of the engagement even though the user is not a party to the engagement agreement.
49. In the absence of Terms of Reference or other similar documentation setting out the scope of the AUP engagement, the practitioner may consider obtaining affirmative acknowledgement that the user and other relevant parties (or their representatives) agree to the procedures to be performed and take responsibility for the procedures. The Working Group is further of the view that it is preferable (though not necessary) for the acknowledgement to be in writing.

⁸ ISRS 4400, paragraph 9

⁹ ISRS 4400, paragraph 10

Q11. Do you agree with the Working Group's view that the availability of the Terms of Reference would normally be sufficient even though the user is not a party to the engagement agreement? Why or why not?

Q12. Do you agree that, in the absence of Terms of Reference or similar documentation, the practitioner should consider obtaining affirmative acknowledgement from the user and other relevant parties (or their representatives)? Why or why not?

Recommendations in Conjunction with AUP Engagements

50. The Working Group is aware of a few cases when regulators request practitioners to make recommendations (referred to as “management letters” in some jurisdictions) either as part of AUP engagements or in addition to them. For example, regulators may request recommendations on improving controls relating to deficiencies noted during the AUP engagement, or may use recommendations arising from the financial statements audit engagement to determine whether to request additional procedures to be performed through an AUP engagement.
51. ISRS 4400 does not currently contemplate the provision of recommendations in conjunction with AUP engagements. In the Working Group's view, the provision of recommendations in conjunction with an AUP Engagement represents a multi-scope engagement consisting of an AUP engagement and a separate service involving the provision of recommendations arising from the AUP engagement or from another engagement such as an audit. The Working Group is of the view that communications arising from such additional services should be clearly distinguished from the AUP engagement and report.

Q13. Do you agree with the Working Group's view that communications arising from any additional services such as recommendations and management letters should be clearly distinguished from the AUP engagement and report? Why or why not?

The Role of Independence in AUP Engagements

52. The International Ethics Standards Board for Accountants (IESBA) *Code of Ethics for Professional Accountants* (IESBA Code) requires a practitioner to be objective, but does not require the practitioner to be independent, when performing a “non-assurance engagement” such as an AUP engagement.¹⁰
53. Being objective obliges practitioners to not compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others. Independence goes beyond objectivity, and comprises :
- Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism; and

¹⁰ IESBA Code, paragraph 120.1

- Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit or assurance team's, integrity, objectivity or professional skepticism has been compromised.¹¹
54. Consistent with the IESBA Code, ISRS 4400 states that “independence is not a requirement for AUP engagements; however, the terms or objectives of an engagement or national standards may require the [practitioner] to comply with the independence requirements of (the IESBA Code). Where the [practitioner] is not independent, a statement to that effect would be made in the report of factual findings.”¹²
55. A debate has arisen as to whether practitioners should be independent when performing AUP and other related services engagements. In the context of compilation engagements, in its recent finalization of ISRS 4410 (Revised)¹³, the IAASB retained the principle that practitioners did not need to be independent. However, in recently revising their respective AUP standards, the AUASB and the AICPA decided to require the practitioner to be independent when performing an AUP engagement. Further, law or regulation that requires entities to engage practitioners to prepare AUP reports may also specify practitioners' independence. For example, the European Commission's Horizon 2020 program, which uses AUP reports as the primary way of reporting, requires the practitioner to comply with the IESBA Code, including the independence requirements, even though independence is not a requirement for AUP engagements.
56. Outreach to date has indicated that stakeholders have conflicting views on this issue. While the independence of practitioners was generally seen as a hallmark of the profession that would add value to the engagement and the lack of independence would reduce the value of the engagement, some stakeholders are concerned that requiring practitioners to be independent would limit the use of AUP engagements, which would not be in the public interest. These stakeholders indicated that the approach in ISRS 4400 is consistent with the IESBA Code and noted the benefit of the transparency required by ISRS 4400 as the lack of independence is stated in the report of factual findings.
57. Requiring practitioners to be independent when performing AUP engagements could be considered unnecessarily restrictive. In the Working Group's view, the current approach of requiring, “where the [practitioner] is not independent, a statement to that effect would be made in the report of factual findings”¹⁴ may strike the right balance. Given the lack of agreement heard in our outreach, the Working Group is seeking additional views on the existing requirements pertaining to the practitioner's independence.

Q14. What are your views regarding the existing requirements pertaining to the practitioner's independence for AUP engagements?

¹¹ IESBA Code, paragraphs 290.6 and 291.5

¹² ISRS 4400, paragraph 7

¹³ ISRS 4410 (Revised), *Compilation Engagements*

¹⁴ ISRS 4400, paragraph 7

Q15. 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.

III: Multi-scope Engagements

58. Changes in the business environment include growth in regulations calling for increased accountability on how funds and grants are used and increases in audit exemption thresholds in many jurisdictions. These changes have prompted stakeholders to look for alternatives to audits to assist them in exercising their oversight responsibilities. The Working Group found that this has resulted in increased demand not only for AUP engagements but for combinations of engagements, sometimes, on different subject matters.
59. The IAASB's Work Plan includes, with respect to the AUP project, a number of references to "hybrid" engagements. The Working Group performed extensive outreach to find out what "hybrid" engagements are and how they are used, and concluded that, based on the outreach, the term "hybrid" engagements may be used to refer to many different types of engagements, such as:
- Engagements mandated by regulators that the regulator describes as AUP engagements, where the procedures specified by the regulator do not amount to an assurance engagement but where the reporting required by the regulator uses terms that purport to provide assurance. Stakeholders indicated that users such as regulators or providers of grant funding or other capital sometimes misunderstand the distinction between the different types of the IAASB's pronouncements and their purpose, and dismiss the significant differences between these pronouncements as mere nuance. They ask practitioners to "certify" or "verify" that an entity has complied with requirements or agreements, and attempt to specify the procedures to be performed in support of the certification or verification. In many cases, the procedures relate to whether a funding recipient has used the funds solely for designated purposes. Individual practitioners, NSS and professional accounting bodies in receipt of such requests have, in many cases, successfully intervened to explain the different nature of assurance and related services engagements.
 - Engagements that consist of an AUP engagement combined with another engagement such as an assurance engagement, which clearly distinguish between the various elements and are, therefore, better described as "multi-scope" engagements. Stakeholders also indicated that user needs were often best satisfied by multi-scope engagements. This Discussion Paper uses the term "multi-scope engagements" rather than "hybrid engagements" to avoid the type of engagement described in the previous bullet.
60. The Working Group's outreach found many more examples of the latter category than the former and the remainder of this Discussion Paper therefore focuses on the latter category; multi-scope engagements.
61. A multi-scope engagement is an engagement that comprises of two or more separate services within the scope of IAASB pronouncements. For example, a multi-scope engagement may combine an AUP engagement to agree employee leave taken to employee records with:
- An assurance engagement on historical financial information; and/or
 - An assurance engagement on compliance with the terms of a grant agreement.
62. In the Working Group's view, the key characteristic of multi-scope engagements is that the various elements of the engagement comply with the corresponding IAASB pronouncements. For example

if an AUP engagement is combined with an audit, review, other assurance or compilation engagement, the elements would each need to comply with the relevant IAASB standards.

63. To assist practitioners in conducting a multi-scope engagement, some NSS and professional accounting bodies have developed guidance, such as the Guidance Statement 022 - Grant Acquittals and Multi-Scope Engagements, issued by the AUASB. In another case, a professional accounting body provided illustrative reports that separated the requirements of a regulatory form into their constituent engagement components.
64. The Working Group discussed whether requirements related to multi-scope engagements in the form of a new standard or other guidance might be useful and should be included as part of the revision of ISRS 4400. In the Working Group's view any work to address multi-scope engagements needs to be separated from the project to revise ISRS 4400, because the scope of multi-scope engagements extends beyond ISRS 4400. However, the Working Group is interested in your feedback on this topic as it will inform the Working Group and the IAASB as to whether such efforts are necessary and how they should be prioritized in the future.

Q16. Do you believe that requirements or guidance are needed for multi-scope engagements? Why or why not?

Specific proposals on guidance relating to multi-scope engagements are welcome. If you believe that requirements are needed, please indicate where you would locate the requirements within the IAASB pronouncements.

Please also provide examples of any multi-scope engagements of which you are aware.

IV. What Happens Next?

65. Your input will help the Working Group and the IAASB decide on the next steps. Your responses will inform the development of a project proposal to revise ISRS 4400 and the consideration of other activities that may be necessary. The Working Group plans to decide on the next steps, including bringing the project proposal to revise ISRS 4400 to the IAASB, in 2017.

Questions for the Discussion Paper

The following questions for respondents relate to the matters set out in this Discussion Paper, and also appear following the relevant discussion in this document. The Working Group welcome responses to any or all of these questions. Responses will be most helpful when they clearly indicate to which question the response relates and articulate respondents' rationale for their views.

The Use of Professional Judgment in an AUP Engagement

- Q1. *Do you agree with the Working Group's views regarding the use of professional judgment in an AUP engagement? Why or why not?*
- Q2. *In your view, what are the appropriate actions that may be undertaken by the practitioner in the circumstances set out in paragraphs 22?*

Please provide other examples on the use of judgment in an AUP engagement.

The Use of Ambiguous Terminology in Describing Procedures or Findings

- Q3. *Do you agree with the Working Group's view that ambiguous terms should be prohibited unless required by regulations or contracts? Why or why not?*
- Q4. *Do you agree with the categorization and examples of terms provided in paragraph 31? Why or why not?*

AUP Report Restrictions

- Q5. *Do you agree with the Working Group's view that the use, but not the distribution, of AUP reports should be restricted? Why or why not?*

The Format of the AUP Report

- Q6. *Do you agree with the Working Group's view for improvements to the illustrative AUP report? Why or why not?*

We would be particularly interested in receiving illustrative reports that you believe communicate factual findings well.

Performing AUP Engagements on Non-Financial Information

- Q7. *Do you agree with the Working Group's view that the scope of ISRS 4400 should be broadened to include AUP on non-financial information? Why or why not?*
- Q8. *Do you agree with the preconditions relating to competence as set out in paragraph 40? Why or why not?*

Using the Work of Others

- Q9. *Do you agree that the revised standard should deal with using the work of others? Why or why not?*
- Q10. *Do you agree with the Working Group's views regarding the practitioner's responsibilities when using the work of others? Why or why not?*

Users who are Not Parties to the Engagement Agreement

- Q11. *Do you agree with the Working Group's view that the availability of the Terms of Reference would*

normally be sufficient even though the user is not a party to the engagement agreement? Why or why not?

- Q12. *Do you agree that, in the absence of Terms of Reference or similar documentation, the practitioner should consider obtaining affirmative acknowledgement from the user and other relevant parties (or their representatives)? Why or why not?*

Recommendations in Conjunction with AUP Engagements

- Q13. *Do you agree with the Working Group's view that communications arising from any additional services such as recommendations and management letters should be clearly distinguished from the AUP engagement and report? Why or why not?*

The Role of Independence in AUP Engagements

- Q14. *What are your views regarding the existing requirements pertaining to the practitioner's independence for AUP engagements?*

Other Issues relating to ISRS 4400

- Q15. *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.*

Multi-Scope Engagements

- Q16. *Do you believe that requirements or guidance are needed for multi-scope engagements? Why or why not?*

Specific proposals on guidance relating to multi-scope engagements are welcome. If you believe that requirements are needed, please indicate where you would locate the requirements within the IAASB pronouncements.

Please also provide examples of any multi-scope engagements of which you are aware.

Appendix A

Examples of AUP Engagements

AUP Engagements on Financial Information	AUP Engagements on Non-Financial Information
Eligibility of expenditures claimed from a funding program	Internal controls over financial reporting
Comfort letter to a securities regulator on investment firm's fulfillment of its obligations to clients upon deregistration	Due diligence in a business acquisition
Report on revenues (e.g., for determining royalties, rent, franchise fees based on a % of revenues)	Compliance with "green packaging" requirements
Reconciliation between different financial reporting frameworks	Report on number of passengers to Civil Aviation Authority
Report on compliance with bank covenants	Report on greenhouse gas emissions
Report on capital adequacy ratio for regulatory authorities	Observation of destruction of fake or defective goods
Calculations of financial ratios of projected cash flows for reporting to tax authorities	Data generating process for national lottery draws

Appendix B

Examples of Procedures and Factual Findings in Connection with Claims of Creditors

EXAMPLE 1: PROCEDURES AND FACTUAL FINDINGS IN TABULAR FORMAT

The procedures and corresponding findings are summarized as follows:

Procedure	Finding
<p>Procedure 1:</p> <p>We obtained the general ledger and the accounts payable trial balance as of May 31, 20XX, from XYZ Company.</p> <p>We compared the total of the accounts payable trial balance to the total accounts payable balance in general ledger account 450.</p>	<p>The total of the accounts payable trial balance agreed with the total accounts payable balance in the general ledger account number 450.</p>
<p>Procedure 2:</p> <p>We obtained the claim form submitted by creditors in support of the amounts claimed from XYZ Company.</p> <p>We compared the creditor name and amounts from the claim form to the respective name and amounts shown in the accounts payable trial balance obtained in procedure 1.</p> <p>For any differences identified, we requested XYZ Company to provide supporting detail.</p> <p>We compared such identified differences to the supporting detail provided.</p>	<p>All differences noted are presented in column 3 of Schedule A. Except for those amounts shown in column 4 of Schedule A, all such differences were agreed to [describe supporting detail]</p>
<p>Procedure 3:</p> <p>Using the claim form obtained in procedure 2, we compared the name and amount to invoices, and if applicable, receiving reports, provided by XYZ Company.</p>	<p>No exceptions were found as a result of this procedure.</p>

EXAMPLE 2: PROCEDURES AND CORRESPONDING FACTUAL FINDINGS PRESENTED TOGETHER

The procedures and corresponding findings are summarized as follows:

1. We obtained the general ledger and the accounts payable trial balance as of May 31, 20XX, from XYZ Company. We compared the total of the accounts payable trial balance to the total accounts payable balance in general ledger account 450.

The total of the accounts payable trial balance agreed with the total accounts payable balance in the general ledger account number 450.

2. We obtained the claim form submitted by creditors in support of the amounts claimed from XYZ Company. We compared the creditor name and amounts from the claim form to the respective name and amounts shown in the accounts payable trial balance obtained in procedure 1. For any differences identified, we requested XYZ Company to provide supporting detail. We compared such identified differences to the supporting detail provided.

All differences noted are presented in column 3 of Schedule A. Except for those amounts shown in column 4 of Schedule A, all such differences were agreed to [*describe supporting detail*].

3. Using the claim form obtained in procedure 2, we compared the name and amount to invoices, and if applicable, receiving reports, provided by XYZ Company.

No exceptions were found as a result of this procedure.