

## Agreed-Upon Procedures – Feedback Report on Responses to Discussion Paper

### Objective of IAASB Discussion

The objectives of this Agenda Item are to:

- Inform the IAASB on responses received on the Discussion Paper *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards*, issued; and
- Approve the project proposal to revise ISRS 4400.

### I. Introduction

1. In November 2016, the Discussion Paper, *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards*, was issued.<sup>1</sup> The fifty four responses<sup>2</sup> received were from stakeholders across a wide range of entities and different jurisdictions (the Appendix set out the names of the respondents). The responses were overwhelmingly supportive of the views and conclusions expressed in the Discussion Paper.<sup>3</sup>
2. The extent of support leads the Working Group (WG) to conclude that, provided the Board continues to support the general direction, conclusions and views of the Discussion Paper, it would be efficient and effective to progress to the approval of a project proposal to revise and improve ISRS 4400.

#### Extracts from responses to the Discussion Paper

"We support the IAASB's decision to explore this topic. AUP engagements are now being used broadly and for the attention of different users, and the profession needs to better explain and promote the added value of non-audit services."

"We welcome IAASB's intention to consider a reworking of ISRS 4400 in order to enhance it against the background of increasing demand..."

"...we continue to strongly believe that the revision of ISRS 4400 should be a high priority for the Board."

<sup>1</sup> <http://www.ifac.org/publications-resources/discussion-paper-exploring-demand-agreed-upon-procedures-engagements-and>

<sup>2</sup> This paper uses the following descriptions to the number of responses:

- A respondent = 1 respondent.
- A few respondents = 2 – 3 respondents.
- Some respondents = 4 – 6 respondents.
- Several respondents = 7 – 11 respondents
- Many respondents = 12 – 27 respondents.
- Majority of respondents = 28 – 43 respondents.
- Significant majority of respondents = 44 or more (over 80% of total responses).

<sup>3</sup> The AUP WG met once and held two teleconferences to discuss the responses to the Discussion Paper.

*Responses by Type of Entity*

Those charged with governance	1
Regulators and oversight authorities	2
National standard setters	10
Accounting firms	10
Public sector organizations	3
Member bodies and other professional organizations	26
Individuals and others	2

*Responses by Geographical Area*

Global	10
Europe	17
Middle East and Africa	7
Asia Pacific	14
North America	5
South America	1

**II. Overview of Responses**

3. Respondents provided thoughtful and substantive responses that will be helpful when developing a revised ISRS 4400. The respondents<sup>4</sup> were very supportive of the IAASB's initiative and the decision to move forward with the project because of the need for an updated AUP standard that reflects the emerging needs of users today. For example:
- There is growing demand for AUP engagements on both financial and non-financial information around the world because of the need for increased accountability around funding and grants.
  - AUP engagements are seen as a value-added service, especially in light of regulatory changes such as the increase in audit exemptions.
  - While AUP engagements are performed by firms of all sizes, it has been noted that AUP engagements are particularly relevant in the Small-and-Medium-sized Practices (SMP) and Small-and-Medium-sized Entities (SME) environment.<sup>5</sup>

<sup>4</sup> Two respondents (EYG and PwC), while indicating support for a project to revise ISRS 4400, indicated that there are no fundamental flaws with the standard and therefore, a project to revise this standard is not as urgent as those relating to the ISAs.

<sup>5</sup> The relevance of AUP engagements in the SMP and SME environment was highlighted at the Small and Medium Practices working conference held in January 2017. High level feedback from the working conference can be found here: [https://www.iaasb.org/system/files/meetings/files/20170315-IAASB-Agenda\\_Item\\_7-SMP\\_SME-Audits-Presentation\\_0.pdf](https://www.iaasb.org/system/files/meetings/files/20170315-IAASB-Agenda_Item_7-SMP_SME-Audits-Presentation_0.pdf)

4. Stakeholders strongly support the WG's positions set out in the Discussion Paper. The WG's positions on all key aspects of an AUP engagement are supported by either a majority (over 50%) or a significant majority (over 80%) of respondents. For example:

The role of professional judgment in an AUP engagement

- A significant majority agreed that professional judgment has a role in an AUP engagement, particularly in the context of professional competence and due care.

The independence of the professional accountant

- The majority agreed with not requiring the practitioner to be independent.

Terminology in describing procedures and reporting factual findings in an AUP report

- A significant majority agreed that unclear or misleading' terminology should be prohibited unless required by law or regulation.

AUP engagements on non-financial information

- A significant majority agreed that ISRS 4400 (Revised) should be clarified to include non-financial information within its scope.

Using the work of an expert

- A significant majority agreed that ISRS 4400 (Revised) should address the use of the work of an expert.

Format of the AUP report

- A significant majority agreed with improving the illustrative report.

AUP report restrictions

- A significant majority agreed that the AUP report can be provided to a party who is not a signatory to the engagement agreement provided the party has a clear understanding of the AUP and the conditions of the engagement.
- A majority agreed with requiring the AUP report to include a statement to the effect that the report is intended solely for the specific users and may not be suitable for any other purposes.

Recommendations made in conjunction with AUP engagements

- A majority agreed that recommendations made as part of, or in addition to, AUP engagements should be clearly distinguished from the AUP engagement and report. Most of the remaining respondents expressed the view that ISRS 4400 (Revised) should not deal with recommendations.

Multi-scope engagements

- A significant majority agreed with addressing multi-scope engagements after the completion of the ISRS 4400 revision project.

Each of these key aspects is discussed in more detail below.

### III. The Role of Professional Judgment 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?*

5. The *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* states that the nature of International Standards requires the professional accountant to exercise professional judgment in applying them. However, professional judgment is not discussed in ISRS 4400. A question arises as to what role, if any, professional judgment plays in an AUP engagement.
6. Responses to the Discussion Paper clearly indicate that the role of professional judgment in an AUP engagement is a significant issue, if not the most significant issue to be addressed in the project. A significant majority<sup>6</sup> agreed with the WG’s position on professional judgment or confirmed that the WG’s position is consistent with their understanding on how professional judgment applies in AUP engagements.
7. These respondents made it clear that an AUP engagement requires professional judgment in the activities as described in the Discussion Paper. They provided examples of areas in an AUP engagement in which professional judgment is needed including:
  - Determining whether to accept the engagement, including consideration of whether the AUP engagement is fit for purpose.<sup>7</sup>
  - Agreeing or modifying the terms of engagement. The agreement of terms is often, in practice, an iterative process. Terms of engagement are not necessarily fixed at a given point in time and are sometimes refined, finessed or adjusted during the course of the engagement. Occasionally, they may even be substantively changed, provided the change is for a rational purpose. For example, refinements may be made to agreed sample sizes during the course of the engagement.<sup>8</sup>
  - Planning the AUP engagement.<sup>9</sup>
  - Helping practitioners to provide critical challenge and support to the preparer or user.<sup>10</sup>

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<sup>6</sup> (TCWG) IASA; (Regulators and oversight authorities) EC, IRBA, (NSS) CAASB, AUASB, CNCC-CSOEC, HKICPA, IDW, JICPA, MAASB, NZAUASB; (Firms) CHI, DTTL, EYG, GTIL, KPMG-IFRG, PKFI, PwC, RSM; (Public Sector) ANZ, CIPFA, PAS; (Member bodies) ACCA, AICPA, ASSIREVI, CAANZ, CAI, CPAA, EFAA, FACPCE, FAR, FSR, IBR-IRE, ICAEW, ICAG, ICASL, ICAZ, ICPAU, ISCA, KICPA, MICPA, NASBA, SAICA, SAIPA, SMPC, WPK, (Individuals and others) ANA

<sup>7</sup> (Regulators and oversight authorities) IRBA; (NSS) CNCC-CSOEC, JICPA, NZAUASB; (Firms) CHI, EYG, KPMG-IFRG, PwC; (Member bodies) ACCA, CPAA, FAR, IBR-IRE, ICAEW, ISCA, NASBA, SAICA, SMPC

<sup>8</sup> (NSS) CNCC-CSOEC, IDW, JICPA, NZAUASB; (Firms) KPMG-IFRG, PwC; (Member bodies) CPAA, FSR, NASBA, SMPC, WPK

<sup>9</sup> (NSS) CAASB, IDW; (Firms) PwC; (Member bodies) CPAA, ICAZ, NASBA, WPK

<sup>10</sup> (NSS) CAASB, AUASB, CNCC-CSOEC; (Firms) KPMG-IFRG; (Member bodies) SMPC

- Consistent with the premise that professional judgment is exercised in the context of professional competence and due care, determining the practitioner’s responsibilities when the practitioner becoming aware of:
    - Fraud or non-compliance with laws and regulations;
    - Incomplete or inaccurate documents or records;
    - Information that may contradict the findings but that are not part of the AUP engagement (e.g., information from another engagement); and
    - Misuse of the AUP report (e.g., client is encouraging or facilitating inappropriate use of the AUP report).<sup>11</sup>
  - 8. A few respondents<sup>12</sup> were of the view that more judgment should be allowed in areas such as:
    - Providing interpretations of factual findings to help users in their decision-making process.
    - Wording a modification to the report.

Q2. *Should revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?*
  - 9. Respondents<sup>13</sup> views were almost evenly split regarding whether there is a need for a *requirement* on professional judgment. Potential unintended consequences of including such a requirement include exacerbating the confusion about the nature and extent of professional judgment expected in an AUP engagement, and obscuring the line between an AUP engagement and an assurance engagement. Regardless of their views on the need for a requirement on professional judgment, a majority of respondents<sup>14</sup> agreed with including a discussion of professional judgment (including a brief discussion on the differences between an AUP and assurance engagement) in ISRS 4400 (Revised).
- Other Comments on Professional Judgment and Professional Skepticism*
10. Some respondents<sup>15</sup> noted that professional skepticism is only referenced in standards dealing with audit and assurance engagements. These respondents suggested that the concept of professional skepticism should not be included in ISRS 4400 (Revised) until the IAASB and the International Ethics

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<sup>11</sup> (Regulators and oversight authorities) IRBA; (NSS) CAASB, CNCC-CSOEC, IDW, JICPA, MAASB, NBA, NZAUASB; (Firms) DTTL, EYG, GTIL, KPMG-IFRG, PKFI, PwC, RSM; (Member bodies) ACCA, AE, CAANZ, CPAA, FAR, IBR-IRE, ICAS, KICPA, NASBA, SAICA, SMPC, WPK

<sup>12</sup> (NSS) NBA; (Firms) Kingston; (Member bodies) ICAS

<sup>13</sup> [Respondents who support a requirement on professional judgment] (Regulators and oversight authorities) IRBA; (NSS) CAASB, IDW, MAASB, NBA; (Firms) CHI, KS, PKFI, PwC; (Public Sector) ANZ, CIPFA, PAS; (Member bodies) ACCA, AE, AICPA, EFAA, FSR, ICAS, ICPAU, KICPA, MICPA, NASBA, SAICA; (Individuals and others) 14000, ANA, [Respondents who disagree with a requirement on professional judgment] (TCWG) IIASA; (Regulators and oversight authorities) EC; (NSS) AUASB, CNCC-CSOEC, JICPA, NZAUASB; (Firms) EYG, GTIL, RSM; (Member bodies) ASSIREVI, CAANZ, CAI, CPAA, FACPCE, IBR-IRE, ICAEW, ICAG, ICASL, ICAZ, SAIPA, SMPC, WPK

<sup>14</sup> (Regulators and oversight authorities) IRBA; (NSS) CNCC-CSOEC, HKICPA, IDW, JICPA, MAASB, NBA, NZAUASB; (Firms) BDO, CHI, DTTL, EYG, GTIL, KPMG, PKFI, PwC, RSM; (Public Sector) CIPFA, PAS; (Member bodies) ACCA, AE, AICPA, CAI, CPAA, EFAA, FSR, ICAEW, ICAG, ICAS, ICAZ, ISCA, KICPA SAICA, SMPC

<sup>15</sup> (NSS) IDW; (Member bodies) AE, IBR-IRE, ICAZ, SMPC

Standards Board for Accountants (IESBA) have considered and resolved potential changes to the definition and the applicability of professional skepticism.

#### IV. 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?*

11. The IESBA Code requires the practitioner to be objective, but not necessarily independent, when performing non-assurance engagements such as AUP engagements.<sup>16</sup> 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.”<sup>17</sup>
12. A majority of respondents<sup>18</sup> agreed that the existing approach strikes the right balance between acknowledging the value of independence and avoiding a requirement that is unnecessarily restrictive. Most of these respondents<sup>19</sup> indicated that their views would not change regardless of whether the AUP report is restricted to specific users.
13. Other views expressed include:
  - Some respondents<sup>20</sup> disagreed with the requirement for the AUP report to disclose that the practitioner is not independent. They indicated that any requirements relating to independence or disclosure of non-independence should be addressed by the IESBA or relevant ethical requirements, and not in the ISRS.
  - Several respondents<sup>21</sup> suggested an alternative approach in which the practitioner is, by default, required to be independent. However, the practitioner may be permitted to not be independent under certain circumstances (e.g., if the engaging party explicitly agrees to the practitioner not being independent).

#### V. 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?*

14. The Discussion Paper sets out the WG’s view that unclear or misleading terminology in general should be prohibited unless the terminology is required by law or regulation. Where unclear or

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<sup>16</sup> IESBA Code, paragraph 120.1

<sup>17</sup> ISRS 4400, paragraph 7

<sup>18</sup> (Regulators and oversight authorities) EC, IRBA; (NSS) CAASB, CNCC-CSOEC, HKICPA, IDW, JICPA, MAASB, NBA; (Firms) BDO, EYG, GTIL, KPMG-IFRG, KS, PKFI, PwC, RSM; (Public sector) CIPFA, PAS; (Member bodies) ACCA, AE, ASSIREVI, CAANZ, CAI, EFAA, ICAEW, ICAS, ICASL, ISCA, KICPA, MICPA, SAICA, SAIPA, SMPC; (Individuals and others) ANA

<sup>19</sup> Of the respondents who agreed with the existing approach, four respondents indicated that their views may change depending on whether the report is restricted. These respondents are: (Firms) EYG, PwC, RSM; (Member bodies) CAANZ.

<sup>20</sup> (NSS) CNCC-CSOEC, NBA; (Member bodies) AE, ICAS, ISCA

<sup>21</sup> (NSS) AUASB, NZAUASB; (Firms) CHI, DTTL; (Member bodies) AICPA, CPAA, NASBA

misleading terminology is required by law or regulation, the practitioner should discuss with the engaging party and the user whether it is possible to define the required terms with reference to the required procedures in the AUP report, so that they are no longer unclear or misleading or alternatively, whether an assurance engagement (as opposed to an AUP engagement) would be more appropriate.

15. A significant majority of respondents<sup>22</sup> were of the view that unclear or misleading terminology should be prohibited and that guidance should be developed on what unclear or misleading terminology means. Reasons cited included:
  - Misleading terminology is a major contributor to on-going market confusion over the non-assurance provided by an AUP engagement and is therefore a contributor to the expectation gap between professional accountants and stakeholders.
  - The prohibition on unclear or misleading terminology in general is consistent with the IESBA Code's prohibition on practitioners being associated with misleading information.
16. Further, several respondents<sup>23</sup> provided suggestions similar to those set out in the Discussion Paper on avoiding unclear or misleading terminology. Generally, the steps involve requiring the practitioner to:
  - Consider whether any of the terminology is unclear or misleading in light of the context the terminology is used;
  - Request terminology that is unclear or misleading be changed; and
  - If the unclear or misleading terminology cannot be changed because it is prescribed by law or regulation, include a definition of the terminology in the AUP report so that it is no longer unclear or misleading.
17. The majority of respondents<sup>24</sup> also agreed with providing guidance on unclear or misleading terminology. However, many respondents<sup>25</sup> cautioned against an outright prohibition on the use of certain words as those words may be required by law or regulation, or may present translation difficulties.

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<sup>22</sup> (TCWG) IIASA; (Regulators and oversight authorities) IRBA; (NSS) CAASB, AUASB, CNCC-CSOEC, HKICPA, IDW, JICPA, MAASB; (Firms) CHI, DTTL, GTIL, KPMG-IFRG, KS, PKFI, PwC, RSM; (Public sector) ANZ, CIPFA, PAS; (Member bodies) ACCA, AE, AICPA, ASSIREVI, CAANZ, CAI, CPAA, EFAA, FACPCE, FAR, FSR, IBR-IRE, ICAEW, ICAG, ICAS, ICASL, ICAZ, ICPAU, ISCA, KICPA, MICPA, NASBA, SAICA, SAIPA, SMPC, WPK; (Individuals and others) 14000.

<sup>23</sup> (Regulators and oversight authorities) EC; (NSS) CAASB, IDW; (Firms) BDO, KPMG-IFRG; (Member bodies) FSR, NASBA, SAICA, SMPC

<sup>24</sup> (TCWG) IIASA; (Regulators and oversight authorities) EC, IRBA; (NSS) CAASB, AUASB, CNCC-CSOEC, HKICPA, IDW, JICPA, MAASB, NBA, NZAUASB; (Firms) BDO, CHI, EYG, GTIL, KPMG, PKFI, PwC, RSM; (Public sector) ANZ, CIPFA; (Member bodies) AE, AICPA, ASSIREVI, CAANZ, CPAA, EFAA, FACPCE, FAR, FSR, IBR-RIE, ICAEW, ISCA, KICPA, SAICA, SAIPA, SMPC

<sup>25</sup> (Regulators and oversight authorities) EC; (NSS) CAASB, AUASB, IDW, NBA, NZAUASB; (Firms) BDO, GTIL, PKFI, RSM; (Member bodies) ACCA, AE, EFAA, FAR, ICAEW, KICPA, SAICA, SMPC, WPK

## VI. AUP Engagement 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?*
18. The Discussion Paper asked for views on (a) clarification that the scope of ISRS 4400 (Revised) includes non-financial information, and (b) the development of pre-conditions for competence when accepting and performing an AUP engagement on non-financial information.
19. With the exception of one respondent who expressed disagreement and two respondents who provided no comments,<sup>26</sup> all respondents agreed that the scope of ISRS 4400 (Revised) should be clarified to include non-financial information, citing reasons such as:
- The growth of AUP engagements on non-financial information.<sup>27</sup>
  - To avoid some practitioners mistakenly believing that only assurance engagements (in accordance with ISAE 3000<sup>28</sup>) can be performed on non-financial information.<sup>29</sup>
20. Regarding the competence requirements contemplated in the Discussion Paper, several respondents<sup>30</sup> suggested that the competence requirements should apply to all AUP engagements regardless of whether the AUP engagement deals with financial or non-financial information. Some respondents<sup>31</sup> noted that ISQC 1 and the IESBA Code already require the practitioner to have (or able to obtain) the necessary competence before accepting an engagement regardless of the subject matter of the engagement.
21. A few respondents<sup>32</sup> also pointed out that the reference to “reasonable criteria” in existing ISRS 4400 may not be appropriate given that the procedures to be performed are already clearly set out in the terms of engagement (i.e., there is no need for the practitioner to apply “criteria”).

## VII. 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?*
22. The Discussion Paper set out the WG’s view that ISRS 4400 (Revised) should address the use of the work of an expert. An expert may assist the practitioner by applying technical knowledge in

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<sup>26</sup> [Disagreement] (Individuals and others) ANA; [No comments] (NSS) FAP; (Member body) ISCA

<sup>27</sup> (Regulators and oversight authorities) EC, IRBA; (NSS) CAASB, CNCC-CSOEC, HKICPA, IDW, JICPA, MAASB, NBA, NZAUASB; (Firms) EYG, GTIL, KS, KPMG-IFRG, PwC, RSM; (Member bodies) ACCA, AE, CAI, EFAA, FSR, IBR-IRE, ICAEW, ICAS, ICAZ, SAICA, SAIPA, SMPC; (Individuals and others) 14000

<sup>28</sup> ISAE 3000, *Assurance Engagements other than Audits or Reviews of Historical Financial Information*

<sup>29</sup> (Regulators and oversight authorities) IRBA

<sup>30</sup> (NSS) AUASB, IDW, JICPA, MAASB, NBA; (Firms) EYG; (Member bodies) AICPA, CPAA, FAR, FSR, SAICA

<sup>31</sup> (NSS) CNCC-CSOEC, NBA; (Firms) PKFI; (Member bodies) IBR-IRE

<sup>32</sup> (NSS) IDW, JICPA

performing the AUP without exercising professional judgment beyond that which is necessary to demonstrate professional competence and due care.

23. A significant majority of respondents<sup>33</sup> agreed that ISRS 4400 (Revised) should address the use of the work of an expert, citing reasons such as:
- It is possible that technical competence in an area of expertise beyond that commonly held by professional accountants may be required for certain procedures, especially as AUP engagements on non-financial information become more prevalent.<sup>34</sup>
  - Addressing the use of an expert in ISRS 4400 (Revised) will help to clarify that the practitioner may use the work of an expert in an AUP engagement.<sup>35</sup>
24. However, several respondents<sup>36</sup> (both those who agree and those who disagree with using the work of an expert in an AUP engagement) indicated that the work of an expert is commonly understood as involving professional judgment. The WG will exercise caution when addressing this matter. Some of these respondents<sup>37</sup> further suggested that the revised ISRS 4400 clarify the need for the practitioner to understand the procedures to be performed by the expert and determine that they are consistent with the procedures as agreed in the terms of engagement, and that the practitioner is ultimately responsible for the AUP engagement.
25. A few respondents<sup>38</sup> who agreed with the use of an expert's work suggested that, if an expert is used, the AUP report should refer to the expert and the work performed by that expert to enhance transparency. However, a respondent<sup>39</sup> cautioned against referring to the expert as it may result in unwarranted reliance being placed on the expert's findings. A few respondents<sup>40</sup> also suggested that ISRS 4400 (Revised) addresses the use of work of others such as internal auditors and experts engaged by the entity.

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<sup>33</sup> [Agree with Use of Experts] (TCWG) IIASA; (Regulators and oversight authorities) EC, IRBA; (NSS) CAASB, AUASB, CNCC-CSOEC, FAP, HKICPA, IDW, JICPA, NBA, NZAUASB; (Firms) BDO, CHI, DTTL, EYG, GTIL, KS, KPMG-IFRG, PKFI, PwC, RSM; (Public sector) ANZ, CIPFA, PAS; (Member bodies) AE, AICPA, ASSIREVI, CPAA, EFAA, FACPCE, FAR, FSR, ICAEW, ICAG, ICAS, ICAZ, ICPAU, KICPA, MICPA, NASBA, SAICA, SAIPA, SMPC, WPK; (Individuals and others) 14000, ANA [Disagree with Use of Experts] (NSS) MAASB; (Member bodies) ACCA, CAANZ, IBR-IRE

<sup>34</sup> (TCWG) IIASA; (NSS) CNCC-CSOEC, NZAUASB; (Firms) CHI, GTIL, KPMG-IFRG, RSM; (Member bodies) FAR, FSR, ICAS, SMPC

<sup>35</sup> (Regulators and oversight authorities) SAIPA

<sup>36</sup> (Regulators and oversight authorities) EC, IRBA; (NSS) CAASB, IDW; (Firms) GTIL; (Member bodies) ACCA, CAANZ, CAI, ICAEW, SAICA, SMPC

<sup>37</sup> (Regulators and oversight authorities) IRBA; (NSS) CAASB, IDW; (Firms) GTIL; (Member bodies) ICAEW, SAICA

<sup>38</sup> (NSS) HKICPA; (Member bodies) AICPA

<sup>39</sup> (NSS) CAASB

<sup>40</sup> (Firms) DTTL; (Member bodies) CPAA

### VIII. Format of the AUP Report

- Q8. *What are your views regarding the Working Group's suggestions for improvements to the illustrative AUP report?*
26. The Discussion Paper sets out suggestions on improving the format of the AUP report. No respondents disagreed with improving the illustrative AUP report.
27. Several respondents<sup>41</sup> cautioned against overcommitting resources to develop an illustrative report or developing an “overly prescriptive” illustrative report (e.g., requiring or strongly suggesting the tabular format over other formats) as each report is customized to each AUP engagement.
28. Several respondents<sup>42</sup> suggested that the illustrative report could be enhanced by including, for example, procedures performed on non-financial information and the corresponding factual findings, reference to the practitioner's independence (or lack thereof), definitions of potentially unclear or misleading words, compliance with the IESBA Code, and reference to experts and findings that represent exceptions/errors.

### IX. AUP Report to a Party Who Is Not a Signatory to the Engagement Agreement

- 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*
29. The Discussion Paper sets out the WG's view that an AUP report can be provided to a party (such as a regulator or funder) who may not be a signatory to the engagement agreement as long as the party has a clear understanding of the AUP and the conditions of the engagement.
30. A significant majority of respondents<sup>43</sup> agreed that the AUP report can be provided to a party who is not a signatory to the engagement agreement, citing reasons such as:
- Many AUP reports are provided to regulators who are not signatories to the engagement agreement. Not permitting the AUP report to be provided to a party who is not a signatory to the engagement agreement would defeat the purpose of the AUP engagement.<sup>44</sup>
  - There may be jurisdictional requirements for the AUP report to be distributed to a number of users.<sup>45</sup>

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<sup>41</sup> (NSS) AUASB, NZAUASB; (Firms) EYG, DTTL, PwC, RSM; (Member bodies) EFAA, SAICA, SMPC, WPK

<sup>42</sup> (Regulators and oversight authorities) IRBA; (Firms) GTIL, PKFI; (Member bodies) CAANZ, CAI, CPAA, ICAEW, MICPA, NASBA, SAIPA

<sup>43</sup> (TCWG) IASA; (Regulators and oversight authorities) EC, IRBA; (NSS) CAASB, AUASB, CNCC-CSOEC, FAP, HKICPA, IDW, JICPA, MAASB, NBA; (Firms) BDO, CHI, DTTL, EYG, GTIL, KS, PKFI, PwC, RSM; (Public sector) ANZ, CIPFA, PAS; (Member bodies) ACCA, AE, AICPA, ASSIREVI, CAI, CPAA, EFAA, FACPCE, FAR, FSR, IBR-IRE, ICAEW, ICAG, ICAS, ICASL, ICAZ, ICPAU, KICPA, MICPA, NASBA, SAICA, SAIPA, SMPC; (Individuals and others) 14000, ANA

<sup>44</sup> (NSS) CAASB, CNCC-CSOEC, HKICPA, IDW; (Firms) BDO, CHI, KS, PwC; (Public sector) CIPFA; (Member bodies) EFAA, IBR-IRE, SAICA; (Individuals and others) 14000

<sup>45</sup> (NSS) CNCC-CSOEC, IDW, NBA; (Firms) BDO; (Public sector) CIPFA

- With the ever-evolving technological environment, any report issued by the practitioner could end up in the public domain.<sup>46</sup>
31. Respondents<sup>47</sup> who did not support allowing the provision of an AUP report to a party who is not a signatory to the engagement agreement noted that the report may be misunderstood, and that it is not practicable for the practitioner to determine whether the party has a clear understanding of the AUP report and the conditions of the engagement.
32. Several respondents<sup>48</sup> provided suggestions on how the practitioner obtain satisfaction that the party has a clear understanding of the AUP engagement. For example:
- The practitioner may discuss the engagement with intended users or a representative of the intended users.
  - The practitioner may obtain a letter of acknowledgement where the intended user acknowledges the terms of the engagement without signing the engagement letter.
33. Many respondents<sup>49</sup> also provided suggestions on circumstances where providing the AUP report to a party who is not a signatory to the agreement may be appropriate. For example:
- The intended user is specified as an intended user in the terms of engagement and the AUP report is restricted to that intended user.
  - If law or regulation specifies that the AUP report must be provided to certain users.
  - If the procedures are set out in terms of reference by the intended user.
  - The AUP report may include clarification and disclaimers to mitigate the risk of users misunderstanding the nature and extent of the practitioner's involvement or the purpose of the report.

## **X. Approach to Restricting the Distribution and Use of 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?*

34. The Discussion Paper provided a discussion of three possible approaches to restricting the AUP report:
- A. The first approach would be to require the practitioner to agree with the entity:
- The specified parties who will receive the AUP report; and
  - That the entity will restrict the distribution of the AUP report to those specified parties.

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<sup>46</sup> (Member bodies) SAICA

<sup>47</sup> (NSS) NZAUASB; (Member bodies) CAANZ

<sup>48</sup> (NSS) JICPA, NBA; (Firms) BDO, PwC; (Member bodies) AICPA, ICASL, ICPAU

<sup>49</sup> (NSS) CAASB, AICPA, IDW, JICPA, MAASB, NBA, NZAUASB; (Firms) BDO, DTTL, EYG, GTIL, PwC, RSM; (Public sector) CIPFA; (Member bodies) ASSIREVI, CPAA, EFAA, ICAS, ICPAU, NASBA, SAICA, SMPC, WPK

The practitioner would not accept the AUP engagement unless such an agreement was reached. In addition, the AUP report would include a statement to the effect that the AUP report is restricted to the specific users and is not to be used for any other purposes.

- B. The second approach would neither require nor preclude restrictions on the distribution or use of the AUP report. Any such restrictions would be dealt with by agreement between the entity and the practitioner.
- C. The third approach would require the AUP report to include a statement to the effect that the report is intended solely for the specific users and may not be suitable for any other purposes. This would be subject to law or regulation of the relevant jurisdiction. The approach is similar to how ISA 800<sup>50</sup> alerts readers that the financial statements are prepared in accordance with a special purpose framework.
35. The majority of respondents<sup>51</sup> supported Option C, citing reasons such as:
- Laws or regulations may make Option A impracticable.<sup>52</sup>
  - Option B is too open-ended, which increases the risk of misinterpretation of the AUP report to an unacceptably high level.<sup>53</sup>
  - Option C reflects good practice – The purpose and intended users of the AUP report are made clear without restricting the distribution of the AUP report (which may not be practicable in some jurisdictions).<sup>54</sup>

## XI. 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?*

36. The Discussion Paper sets out the WG's view that recommendations made as part of, or in addition to, AUP engagements should be clearly distinguished from the AUP engagement and report.
37. The majority of respondents<sup>55</sup> agreed with the WG's view that recommendations should be addressed in the revised ISRS 4400, but should be clearly distinguished from the AUP engagement

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<sup>50</sup> ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

<sup>51</sup> (Regulators and oversight authorities) EC, IRBA; (NSS) CAASB, AUASB, HKICPA, IDW, NBA, NZAUASB; (Firms) CHI, DTTL, EYG, GTIL, KS, KPMG-IFRG, PKFI, RSM; (Public sector) ANZ, CIPFA, PAS; (Member bodies) AE, CAI, CPAA, FAR, FSR, IBR-IRE, ICAEW, ICAG, ICAS, ICASL, ICAZ, KICPA, MICPA, NASBA, SAICA, SAIPA, SMPC

<sup>52</sup> (Regulators and oversight authorities) IRBA; (NSS) IDW; (Firms) KS, PKFI, RSM; (Public sector) PAS; (Member bodies) CPAA, FSR, ICAG, ICAZ, NASBA

<sup>53</sup> (Regulators and oversight authorities) IRBA; (NSS) HKICPA, NBA, KS, PKFI, RSM; (Public sector) PAS; (Member bodies) CPAA, FSR, ICAG, ICAZ, SAICA

<sup>54</sup> (Regulators and oversight authorities) EC, IRBA; (NSS) CAASB, AUASB, HKICPA, IDW, NBA, NZAUASB; (Firms) CHI, DTTL, GTIL, KS, PKFI, RSM; (Public sector) ANZ, CIPFA, PAS; (Member bodies) CPAA, FAR, FSR, IBR-IRE, ICAEW, ICAG, ICAS, ICASL, ICAZ, KICPA, MICPA, NASBA, SAICA, SAIPA, SMPC

<sup>55</sup> (TCWG) IIASA; (Regulators and oversight authorities) IRBA; (NSS) CAASB, HKICPA, IDW, JICPA, MAASB, NBA; (Firms) BDO, CHI, DTTL, EYG, GTIL, KS, PKFI, PwC, RSM; (Public sector) ANZ, CIPFA, PAS; (Member bodies) ACCA, AE, AICPA, CAI, EFAA, FACPCE, FAR, FSR, ICAEW, ICAG, ICAS, ICASL, ICAZ, ICPAU, ISCA, KICPA, MICPA, SAIPA, SMPC; (Individuals and others) 14000, ANA

and report. The respondents acknowledge that recommendations may be required or may be used to provide an value-added service. However, recommendations should be clearly distinguished from the AUP report for reasons such as:

- An AUP engagement and an engagement to provide recommendations are two distinct services that serve very different purposes.<sup>56</sup>
- Unlike an AUP engagement, providing recommendations involve extensive professional judgment and subjectivity in reporting.<sup>57</sup>
- The lack of distinction between findings from an AUP engagement and recommendations could result in confusion over the nature of the AUP engagement.<sup>58</sup>

38. Other views expressed include:

- Several respondents<sup>59</sup> expressed the view that ISRS 4400 (Revised) should not deal with recommendations at all for many of the same reasons set out in the bullet points in the paragraph above.
- Several respondents<sup>60</sup> suggested that, if recommendations are provided, they should always be provided in a separate document from the AUP report.
- A few respondents<sup>61</sup> suggested wording for caveats to be included in recommendations provided by the practitioner.

## XII. Other Significant Issues

*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?*

39. Many respondents<sup>62</sup> raised a number of additional issues to be considered when revising ISRS 4400 including:

- Obtaining management’s written representations and written assertions;<sup>63</sup>

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<sup>56</sup> (TCWG) IASA; (Regulators and oversight authorities) IRBA; (NSS) HKICPA, IDW, JICPA, MAASB; (Firms) BDO, CHI, DTTL, EYG, GTIL, PKFI, PwC, RSM; (Public sector) CIPFA; (Member bodies) ACCA, AE, CAI, EFAA, FACPCE, ICAEW, ICAG, ICAS, ICASL, ICAZ, KICPA, SMPK

<sup>57</sup> (Regulators and oversight authorities) IRBA; (NSS) CAASB, HKICPA, IDW; (Public sector) CIPFA; (Member bodies) ICAZ,

<sup>58</sup> (Regulators and oversight authorities) IRBA; (NSS) HKICPA, IDW, MAASB; (Firms) BDO, DTTL, EYG, PKFI, PwC, RSM; (Member bodies) FACPCE, FAR, ICAEW, ICAG, KICPA

<sup>59</sup> (NSS) AUASB, NZAUASB; (Member bodies) ASSIREVI, CAANZ, CPAA, SAICA, WPK

<sup>60</sup> (NSS) CAASB, CNCC-CSOEC, HKICPA, IDW; (Firms) DTTL, EYG, KS, PwC; (Member bodies) IBR\_IRE, ICAEW, NASBA

<sup>61</sup> (Firms) BDO; (Member bodies) ICAZ

<sup>62</sup> (Regulators and oversight authorities) IRBA; (NSS) CAASB, CNCC-CSOEC, HKICPA, IDW, JICPA, MAASB, NBA, NZAUASB; (Firms) DTTL, PKFI; (Public sector) ANZ; (Member bodies) AE, AICPA, ASSREVI, CAI, CPAA, FAR, FSR, ICAEW, ICAS, ICASL, ICAZ, ICPAU, SAICA, SAIPA; (Individuals and others) ANA

<sup>63</sup> (NSS) CAASB, JICPA, MAASB, NZAUASB; (Firms) DTTL; (Member bodies) ICAZ, SAICA

- Dating the AUP report;<sup>64</sup>
  - Including a linkage to ISQC 1;<sup>65</sup>
  - Documentation;<sup>66</sup> and
  - A number of editorial comments relating to the wording of existing ISRS 4400.<sup>67</sup>
40. Several respondents<sup>68</sup> further suggested ISRS 4400 (Revised) should be updated to reflect the range of AUP engagements used today. In particular, the requirements and related application material should be written in a way that can accommodate different types of AUP engagements such as those that are negotiated between the entity and the practitioner and those that are set out in law or regulation.

### XIII. 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?*

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

41. The Discussion Paper sought views on whether the IAASB should address multi-scope engagements and if so, the priority of addressing multi-scope engagements vis-à-vis revising ISRS 4400.
42. A significant majority of respondents<sup>69</sup> agreed that guidance on multi-scope engagements would be useful, but that guidance should not be developed before ISRS 4400 is revised. Consistent with many of the general comments received, these respondents are of the view that priority should be given to revising ISRS 4400.
43. However, a few respondents<sup>70</sup> suggested including an acknowledgement of multi-scope engagements in ISRS 4400 (Revised) together with brief guidance on reporting on such engagements (i.e., that each report should be clearly distinguished). These respondents are of the view that this could be done relatively quickly.
44. Some respondents<sup>71</sup> suggested that any authoritative material or guidance on multi-scope engagements should be limited to general principles that can be applied globally. These respondents

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<sup>64</sup> (NSS) CAASB

<sup>65</sup> (Regulators and oversight authorities) IRBA; (NSS) CNCC-CSOEC; (Member bodies) SAICA

<sup>66</sup> (Regulators and oversight authorities) IRBA; (Member bodies) CAI, SAICA

<sup>67</sup> (NSS) IDW; (Member bodies) FSR, ICAS, ICPAU, SAIPA; (Individuals and others) ANA

<sup>68</sup> (NSS) IDW; (Firms) PwC; (Member bodies) AE, EFAA, ICAS, SMPC

<sup>69</sup> (TCWG) IIASA; (Regulators and oversight authorities) EC, IRBA; (NSS) CAASB, AUASB, CNCC-CSOEC, HKICPA, IDW, JICPA, MAASB, NBA, NZAUASB; (Firms) BDO, CHI, DTTL, EYG, GTIL, KS, KPMG-IFRG, PKFI, RSM; (Public sector) ANZ, CIPFA, PAS; (Member bodies) ACCA, AE, AICPA, ASSIREVI, CAANZ, CAI, CAAA, EFAA, FACPCE, FAR, FSR, IBR-IRE, ICAEW, ICAG, ICAS, ICASL, ICAZ, ICPAU, ISCA, KICPA, NASBA, SAICA, SAIPA, SMPC, WPK; (Individuals and others) 14000, ANA

<sup>70</sup> (Member bodies) AICPA; (Firms) PwC

<sup>71</sup> (NSS) CAASB; (Firms) CHI, GTIL; (Member bodies) CAANZ

indicated that issues relating to multi-scope engagements are often jurisdiction-specific. Some respondents<sup>72</sup> indicated that care should be taken when developing authoritative material or guidance on multi-scope engagements to ensure that they do not cause further confusion between AUP and assurance engagements.

#### **XIV. Next Steps**

45. In light of the extensive stakeholder support for the views and conclusions expressed in the Discussion Paper, the WG recommends that the IAASB progress to the approval of a project proposal to revise and enhance ISRS 4400.
46. In the WG's view, this project can be completed relatively quickly with minimal IAASB resources because:
  - The revision of ISRS 4400 will likely be fairly straight forward given the strong support for the views and conclusions expressed in the Discussion Paper and the limited interlinkages with other International Standards; and
  - The project will continue to be supported by a seconded NSS staff. The setup of having NSS staff supporting the project, with IAASB staff oversight as needed, has proven to be an efficient way to progress this project using limited IAASB resources.
47. In addition, in its June 2017 meeting the Board discussed ways to make more efficient use of the IAASB staff's time and discussed ways how projects can be progressed more efficient. Given its uncomplicated nature and limited interlinkages with other International Standards, the AUP project is, in the WG's view, a good project to assess whether progressing a project with the use of NSS staff could be a beneficial model going forward.
48. The revision of ISRS 4400 can provide a highly visible IAASB achievement that serves the needs of many stakeholders, including regulators, users of AUP reports, and practitioners. In particular, it will serve an important stakeholder group, SMPs and more broadly the SME environment as highlighted at the SMP/SME working conference in January 2017. In addition, revising ISRS 4400 has been on the IAASB's Work Plan since 2012 and many stakeholders have therefore been long awaiting this revision.
49. Given that a strong majority of the respondents is of the view that guidance on multi-scope engagements should not be developed before ISRS 4400 is revised, the Working Group is of the view that the guidance on multi-scope engagements should be deferred.

#### **Matters for IAASB Consideration:**

1. Does the Board agree that guidance on multi-scope engagements should be deferred until the ISRS 4400 revision project has been completed?
2. Does the Board agree with progressing towards approving a project proposal to revise and enhance ISRS 4400?

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<sup>72</sup> (Regulators and oversight authorities) EC; (NSS) IDW, NZAUASB; (Member bodies) ASSREVI, NASBA; (Individuals and others) 14000

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|---|
| <p>3. Does the Board agree that the matters raised in this Feedback Report have been appropriately carried forward to the project proposal?</p> |
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## List of respondents to the Discussion Paper

#	Abbrev.	Respondent	Region
<b>Those Charged with Governance (1)</b>			
1.	IIASA	The Institute of Internal Auditors South Africa	MEA
<b>Regulators and Oversight Authorities (3)</b>			
2.	EC	European Commission	EU
3.	IRBA	Independent Regulatory Board for Auditors	MEA
<b>National Auditing Standard Setters (11)</b>			
4.	CAASB	Canadian Auditing and Assurance Standards Board	NA
5.	AUASB	Australian Auditing and Assurance Standards Board	AP
6.	CNCC-CSOEC	Compagnie Nationales des Commissaires aux Comptes- Conseil Supérieur de l'Ordre des Experts-Comptables	EU
7.	FAP	Federation of Accounting Professions	AP
8.	HKICPA	Hong Kong Institute of Certified Public Accountants	AP
9.	IDW	Institut der Wirtschaftsprüfer	EU
10.	JICPA	The Japanese Institute of Certified Public Accountants	AP
11.	MAASB	Auditing and Assurance Standards Board of Malaysian Institute of Accountants	AP
12.	NBA	Nederlandse Beroepsorganisatie van Accountants	EU
13.	NZAuASB	New Zealand Auditing and Assurance Standards Board	AP
<b>Accounting Firms (9)</b>			
14.	BDO	BDO International Limited	GLOBAL
15.	CHI	Crowe Horwath International	GLOBAL
16.	DTTL	Deloitte Touche Tohmatsu Limited	GLOBAL
17.	EYG	Ernst & Young Global Limited	GLOBAL
18.	GTIL	Grant Thornton International Limited	GLOBAL
19.	KS	Kingston Smith LLP	EU
20.	KPMG-IFRG	KPMG IFRG Limited (Network)	GLOBAL
21.	PKFI	PKF International Limited	GLOBAL
22.	PwC	PricewaterhouseCoopers International Limited	GLOBAL
23.	RSM	RSM International	GLOBAL

<b>Public Sector Organizations (3)</b>			
24.	ANZ	Audit New Zealand	AP
25.	CIPFA	Chartered Institute of Public Finance & Accountancy	GLOBAL
26.	PAS	Provincial Auditor Saskatchewan	NA
<b>Member Bodies and Other Professional Organizations (24)</b>			
27.	ACCA	Association of Chartered Certified Accountants	GLOBAL
28.	AE	Accountancy Europe	EU
29.	AICPA	American Institute of Certified Public Accountants	NA
30.	ASSIREVI	Associazione Italiana Revisori Contabili (Association of the Italian Auditors)	EU
31.	CAANZ	Chartered Accountants Australia and New Zealand	AP
32.	CAI	Chartered Accountants Ireland – Audit and Assurance Committee	EU
33.	CPAA	CPA Australia	AP
34.	EFAA	European Federation of Accountants and Auditors for SMEs	EU
35.	FACPCE	Federación Argentina de Consejos Profesionales de Ciencias Económicas (Argentine Federation of Professionals Councils of Economic Sciences)	SA
36.	FAR	FAR (Institute for the Accountancy Profession in Sweden)	EU
37.	FSR	Foreningen af Statsautoriserede Revisorer (Danish Institute of Accountants)	EU
38.	IBR-IRE	Institut des Réviseurs d'Entreprise/ Instituut van de Bedrijfsrevisoren	EU
39.	ICAEW	Institute of Chartered Accountants in England and Wales	EU
40.	ICAG	Institute of Chartered Accountants (Ghana)	MEA
41.	ICAS	Institute of Chartered Accountants of Scotland	EU
42.	ICASL	The Institute of Chartered Accountants of Sri Lanka	AP
43.	ICAZ	Institute of Chartered Accountants of Zimbabwe	MEA
44.	ICPAU	Institute Of Certified Public Accountants Of Uganda	MEA
45.	ISCA	Institute of Singapore Chartered Accountants	AP
46.	KICPA	Korean Institute of Certified Public Accountants	AP
47.	NASBA	National Association of State Boards of Accountancy	NA
48.	MICPA	The Malaysian Institute of Certified Public Accountants	AP
49.	SAICA	South African Institute of Chartered Accountants	MEA
50.	SAIPA	South African Institute of Professional Accountants	MEA
51.	SMPC	International Federation of Accountants (IFAC) SMP Committee	GLOBAL

52.	WPK	Wirtschaftsprüferkammer (German Public Accountants MB)	EU
<b>Individuals and Others (3)</b>			
53.	14000	14000 Registry	NA
54.	ANA	Altaf Noor Ali Chartered Accountants	AP