

Supplement M to Agenda Item 5

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

COMMENTS TO QUESTION 12

Note: This supplement has been prepared for information only. A comprehensive summary of the significant comments received on the November 2016 Discussion Paper, *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards* and related analyses of significant issues are presented at the [September 2017 IAASB meeting](#). All comment letters on the Discussion Paper can be accessed [here](#).

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?

#	Respondent	Comments
Those Charged with Governance		
1.	IIA SA	Yes there should be a clear distinction. Recommendations should be dealt with in a separate report or correspondence as this is not a factual finding of the current state of affairs even though it could lead to an improved state of affairs. Recommendations could also display weaknesses or risks which have not materialised and thus weaken factual to the findings in the report allowing for the reader to form an opinion contrary to the factual finding.
Regulators and Oversight Authorities		
2.	EUROPEAN COMMISSION	No, the Working Group's view is too restrictive. It is however acknowledged that a predetermined table of consequences, including recommendations to be provided by the practitioners on matters detected during the AUP engagement is essential to framework both the professional competence and due care of the practitioners, and the equality of treatment and coherence of control results for the stakeholders.
3.	IRBA	12.1 Yes, as they serve very different purposes. The factual finding gives an account of what evidence was obtained to support it. A recommendation, on the other hand, has an element of professional judgment and is therefore fundamentally different from factual

		<p>findings. If the recommendations form part of the AUP report, there is the risk that the recommendation can be construed as if the practitioner is providing an opinion or conclusion.</p> <p>12.2 Providing recommendations is an “act of goodwill” on the part of the practitioner; and if combined with the AUP report, a further risk is that regulators, for example, would hold management of the entity liable if the recommendations are not implemented.</p> <p>12.3 We support the Working Group’s view that recommendations should be provided in a separate document from the AUP report (first bullet point of paragraph 48), similar to a written report to management on control deficiencies (ISA 265) .</p>
National Auditing Standard Setters		
4.	AASB-CNAC	We agree with the Working Group’s view that recommendations should be clearly distinguished from the procedures and factual findings in the AUP report for the reasons stated in the Discussion Paper. In our view, the most effective way of distinguishing recommendations from the AUP report is for the practitioner to issue recommendations in a separate document from the AUP report.
5.	AUASB	<p>The AUASB does not support the inclusion of recommendations in an AUP report. Providing recommendations based on a report on factual findings is not consistent with the nature of an AUP engagement, and therefore is not an appropriate service to provide. An AUP report is a report on factual findings based on procedures agreed to by the practitioner and the engaging party. The AUASB questions how recommendations fit with a report on factual findings, particularly given the nature of the engagement and its limitations, including the limitations on applying professional judgement. The AUASB believes that including recommendations goes beyond the scope of presenting factual findings and will lead to confusion about the nature of the engagement and the assurance provided by the engagement. Further, if recommendations are sought, the AUASB questions whether an AUP engagement would be fit for the user’s purpose and whether perhaps an alternative form of assurance would be more appropriate.</p> <p>Any observations or recommendations must be very clearly separated from the report on factual findings.</p>
6.	CNCC-CSOEC	<p>Yes, we agree with the Working Group’s view that recommendations should be clearly distinguished from the procedures and factual findings, i.e.:</p> <ul style="list-style-type: none"> - in a separate document from the AUP report or; - in a separate section that is clearly differentiated from the procedures and factual findings, if the recommendations are required to be included in the AUP report. <p>We consider that recommendations are a distinct service addressing a different audience. We are of the view that providing recommendation is not part of the AUP engagement.</p>
7.	FAP	NO RESPONSE
8.	HKICPA	We agree that recommendations should be clearly distinguished from the procedures and factual findings. We believe that the recommendations should be in a separate document from the AUP report. This is to ensure that the recommendations do not in any way (unintended or not) affect the mindset of the readers when interpreting the results. The recommendations, to a certain extent, are based on the practitioner’s professional judgement and they may influence the reader’s objectivity if they are included in the AUP report (even if in a separate section of the AUP report).

9.	IDW	Mixing recommendations, which invariably require the application of considerable professional judgment and professional expertise, with the procedures performed and the factual findings arising therefrom that cannot require professional judgment, would likely confuse users as to the nature of the agreed-upon procedures engagements. Hence, we agree that recommendations should be clearly distinguished from the AUP report – either in a separate document from the AUP report, or if required to be included in the AUP report, in a separate section that is clearly differentiated from the procedures and factual findings. The same ought to apply to findings, beyond factual findings, that are derivative from the performance of the procedures (derivative reporting).
10.	JICPA	We agree with the Working Group’s view. Because the recommendation may be based on judgments, etc. separate from factual findings, given the characteristics of AUP engagement, recommendation should be clearly differentiated from the factual findings.
11.	MAASB	The AASB is of the view that any recommendations should be provided in a separate document, clearly distinguished from the AUP report to avoid confusing users that the providing recommendations is part of the scope of the AUP engagement.
12.	NBA	We agree that the recommendations should be clearly distinguished because the recommendations may be limited due to the nature of the performed agreed-upon procedures. See Appendix 1, par. A23
13.	NZAuASB	The NZAuASB does not support the inclusion of recommendations in an AUP report. Recommendations are often driven by opinion on a matter and are not factual and, accordingly, providing recommendations based on a report on factual findings is not consistent with the nature of an AUP engagement, and therefore is not appropriate. Presenting recommendations in a report on factual findings may create confusion about the nature of the engagement and may imply falsely that a level of assurance can be taken from the report. However, if provided, recommendations should be presented in a separate report There is already precedent for this concept, for example, a management letter or process improvements letter in an audit engagement.
Accounting Firms		
14.	BDO	When required by the AUP engagement, we agree that practitioners have the option to include the recommendations either in the AUP report in a section separate from the procedures and factual findings or in a separate document from the AUP report. Regardless of which option is selected by the practitioner, we suggest having an introduction, prior to listing the recommendations, indicating that these are required per the engagement terms and are a by-product of the AUP engagement. This would reduce the risk of the perception that the practitioner may be providing an opinion in the report and users would be less likely to misinterpret that the recommendations are part of the factual findings of the AUP report.
15.	CHI	We agree that recommendations should be clearly distinguished from procedures and factual findings. Recommendations are separate from the specific finding, and should be treated as such.
16.	DTTL	Yes, DTTL agrees that recommendations should be clearly distinguished from the procedures and factual findings, as the engagement is to perform AUPs. Any recommendations should be treated as a by-product of the AUP engagement and should be clearly distinguished from the report itself (for example, by providing separately in the form of a memo sent to the engaging party). Providing recommendations in the AUP report would be contrary to the objective of the AUP engagement, commingle advisory and non-advisory services, and may

		create confusion as to the meaning of the AUP report (i.e., including recommendations in the report would possibly imply that the practitioner is providing assurance rather than no assurance, as is the case with an AUP engagement.)
17.	EYG	Yes, we agree that recommendations should be clearly distinguished from the procedures and factual findings in the AUP report. Our preference is that such recommendations should not be provided in the body of the AUP report in any circumstances, even when recommendations have been requested by regulators or others as part of the AUP engagement. Inclusion of such recommendations in the body of the report may blur the purpose and factual findings of the AUP engagement. Further, if the distribution of the report is not restricted to parties for whom the recommendations are intended, it would be inappropriate to include such recommendations within an appendix or other supplement to the report, and such recommendations should be communicated instead within a separate letter or document.
18.	GTIL	<p>We agree with the view presented in the Discussion Paper that any recommendations made in connection with an AUP engagement should be clearly distinguished from the factual findings. Our preference would be for any recommendations to be in a separate report. We would also consider a separate section in the AUP report or an Appendix to the AUP report acceptable, provided it is sufficiently delineated from the factual findings.</p> <p>It is important that where recommendations are provided, clarity over the scope of the AUP engagement and the results of those procedures is retained in the AUP report. Because recommendations are by-products of the engagement, it should be clearly communicated that the practitioner was engaged to perform an AUP engagement, that the supplementary recommendations were identified as a result of performing those procedures and the practitioner was not engaged to identify and make such recommendations.</p> <p>Proposed updates to ISRS 4400 should provide guidance for practitioners in the form of application material. Such application material should indicate that reports including factual findings and recommendations are not expected to be prevalent. It should also emphasize that clarity in communicating what type of engagement or procedures the practitioner was engaged to perform and report on. The application material could also indicate what types of report presentations would not be appropriate.</p> <p>Consideration should also be given as to how explicitly permitting a report that includes reporting the results of the engagement and recommendations identified as a result of performing that engagement, might impact other engagements or reporting in accordance with International Standards on Auditing.</p>
19.	KINGSTON SMITH LLP	Yes, we agree that any recommendations arising from an AUP engagement should be clearly distinguished, and ideally presented in a separate document unless they are required to be included in the report (for instance by a regulator or grant-giving body).
20.	KPMG	NO RESPONSE
21.	PKFI	<p>Yes, unless the scope of the AUP engagement requires recommendations to factual findings in a single report.</p> <p>Our reasons to clearly distinguish recommendations from the procedures and factual findings are as follows:</p> <ul style="list-style-type: none"> • Potential for misinterpretation or misunderstanding of recommendations in an AUP report especially where recommendations may have not resulted from a specific finding; • Allows the practitioner to provide value adding recommendations that is as a by-product of the engagement. <p>In consideration of the foregoing, the use of management report should be restricted to the specified parties only.</p>

		We encourage the WG to provide non-authoritative guidance of reporting templates that include recommendations and more particularly on how the practitioner would structure the report.
22.	PwC	<ul style="list-style-type: none"> We acknowledge that, from time to time and depending the nature of the engagement, the practitioner may have recommendations. We believe that the recommendations should be in a separate report to avoid confusing the nature of the engagement.
23.	RSM	<p>An AUP report is a report of factual findings and therefore the outcomes of the procedures should, in our view, be clearly distinguished from ancillary findings and recommendations. The danger of associating the report on factual findings too closely with other recommendations is that users view the scope of the engagement as wider than just an AUP report.</p> <p>In terms of format, either a separate report or a clearly differentiated separate section of the AUP report would be acceptable.</p>
Public Sector Organizations		
24.	AUDIT NEW ZEALAND	Yes, in our view recommendations should be clearly distinguished from the procedures and findings. Users of the report should be able to easily identify the findings for each procedure.
25.	CIPFA	CIPFA agrees with the Working Group's view. We would note that recommendations will often contain subjective assessments or judgments which should be kept separate from the factual findings.
26.	PAS	Yes, recommendations should be clearly distinguished from the procedures and factual findings, as earlier stated, the Report on Factual Findings excludes opinions or conclusions. It is suitable to include recommendations, if they are required or requested as part of reporting to the users of the report, but they should be separate from the procedures and findings.
Member Bodies and Other Professional Organizations		
27.	ACCA	ACCA agrees with the Working Group's view that recommendations should be clearly distinguished, as these could also constitute a separate engagement.
28.	AE	We agree with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings. This type of report addresses a different audience. With the provision of recommendations, the practitioner is offering an additional type of work. As noted in paragraph 47, recommendations should be either viewed as a by-product of the AUP engagement or a multi-scope engagement.
29.	AICPA	We note that our general experience with AUPs is that the reporting of findings and the inclusion of recommendations, arising from the execution of the procedures or otherwise, is not frequently included with the report. That said, we do agree that if the practitioner were to include recommendations related to the performance of the procedures, those recommendations should be clearly distinguished from the procedures and factual findings. We recommend that practitioners be allowed flexibility in determining the method for clearly distinguishing the recommendations (that is, not require separate reports) and could include the use of appropriate headings.
30.	AICPA	We note that our general experience with AUPs is that the reporting of findings and the inclusion of recommendations, arising from the execution of the procedures or otherwise, is not frequently included with the report. That said, we do agree that if the practitioner were

		to include recommendations related to the performance of the procedures, those recommendations should be clearly distinguished from the procedures and factual findings. We recommend that practitioners be allowed flexibility in determining the method for clearly distinguishing the recommendations (that is, not require separate reports) and could include the use of appropriate headings.
31.	ASSIREVI	We do not envisage how a practitioner could formulate a view on recommendations based on factual findings unassociated with professional judgment. In our view, the identification of potential recommendations might result misleading in the absence of assurance.
32.	CAANZ	<p>No recommendations should be presented with an AUP report. It should not be construed that the practitioner has considered issues beyond the scope of the AUP engagement, which is strictly to report on factual findings.</p> <p>Informal discussions on the formulation of terminology in procedures so that the practitioner complies with ISRS 4400 are not considered recommendations.</p> <p>However, we discourage any recommendations by the same practitioner on the nature, timing and extent of procedures to achieve a purpose. If permitted, this should be a separate advisory engagement, which must include knowledge gathering, understanding and risk assessment that are not carried out during a pure AUP engagement. Those recommendations should not accompany the AUP report but be a separate report provided before the AUP engagement commences. The practitioner should make it clear that the sufficiency and appropriateness of evidence and any extension of procedures will not be considered during the subsequent AUP engagement.</p>
33.	CAI	<p>We agree that where required, and recommendations are given, that they should be clearly distinguished. Any recommendations provided should be given in a separate document so that they are distinguished from the procedures and factual findings.</p> <p>Appropriate guidance is needed in the revised ISRS 4400 in relation to the context of any recommendations given, particularly if these have been requested as an additional service which involves the provision of recommendations arising from the factual findings reported.</p>
34.	CPAA	<p>We do not support the inclusion of recommendations in an AUP Report. This is not consistent with the purpose of an AUP engagement, which is to conduct the agreed procedures and report factual findings. Reporting of recommendations suggests the practitioner has gone beyond the scope of an AUP and conducted procedures which are inconsistent with the nature of the engagement. If ISRS 4400 provides for reporting of recommendations, it will serve to exacerbate the existing misunderstanding of AUP engagements rather than serve to provide clarification of what these engagements provide and do not provide.</p> <p>An AUP does not provide a sound basis for making recommendations, as it does not require an understanding of the underlying subject matter and other engagement circumstances to enable a properly planned assessment of the subject matter. An assurance or consulting engagement should be conducted if recommendations are sought by the engaging party. Recommendations arising from an AUP engagement may be ad hoc, rather than balanced or comprehensive and consequently may be misleading.</p>
35.	EFAA	<p>We agree.</p> <p>We suspect that clients may request that the practitioner provide recommendations in addition to the performance of AUP. Indeed, we hope that clients will value such recommendations and that this will drive demand for AUP engagements by professional accountants. Recommendations, however, will typically require professional judgement, based partly or wholly on the factual findings, and so alter the scope of the engagement, resulting in 'hybrid engagements'. Hence, it is important that the recommendations be clearly distinguished from the procedures and factual findings.</p>

36.	FACPCE	We agree that the recommendations should be clearly distinguished from the procedures and factual findings so as not to confuse the user of the AUP report. It should be avoided that a recommendation can be interpreted as an extenuating factor of the factual conclusion.
37.	FAR	Yes, we agree, due to it is a consulting engagement to make recommendations regarding for example improvements in internal control or accounting.
38.	FSR	We agree with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings. In our view, due to legal requirements or agreements, there may be a need to include recommendation in a factual findings report. We recommend that the IAASB consider how other reporting requirements should be reflected in a factual findings report.
39.	IBR-IRE	We believe that recommendations should not be part of an ISRS 4400 type of report.
40.	ICAEW	<p>1. We believe that the reporting of factual findings should be clearly separated from any recommendations that the practitioner is making to the client. While we would prefer to see recommendations being provided in a separate report, we acknowledge that there may be certain situations where including the recommendations in an appendix to the AUP report might also have the desired effect.</p> <p><i>Combined answer to question 12/13</i></p> <p>31. Yes we believe that recommendations should be clearly distinguished – and separated – from the report of factual findings on the procedures performed. Given the nature of AUP engagements (a factual findings report, based on predetermined procedures) there would generally be no expectation that the practitioner will have recommendations to offer though we acknowledge that, from time to time and depending on the nature of the engagement, recommendations may comprise an integral part of the client's needs and the practitioner may have some recommendations to make.</p> <p>32. Given that an expectation gap already exists between practitioners and those who request AUP reports, such as national regulators and governmental organisations, about the nature of AUP engagements we think it would be preferable if practitioners included recommendations in a separate report, but accept that in certain circumstances, a separate appendix might also achieve the desired result.</p> <p>33. We are not aware of any other areas in ISRS 4400 that need to be improved to clarify value and limitations of an AUP engagement, other than those already picked up in our response.</p>
41.	ICAG	<p>Finally we conclude on our comments by saying that, the main purpose of the AUP has to do with the factual findings on what the problems are. If problems are identified without possible solutions, work does not seem complete. We are of the view that, the best person who identifies a problem best understands the problem and can identify potential solutions to the problem. Therefore we are of the view that, the AUP report should make recommendations which are clearly distinguished from the factual findings.</p> <p>We very strongly agree that there should be a clear distinction between recommendations and procedures/factual findings. In order to reduce the potential for misinterpretation of recommendations as being part of procedures, these need to be clearly separated. This is because the recommendations will be the by-product of the actual work.</p>

42.	ICAS	We agree with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings. By providing recommendations, the practitioner is offering an additional service which, as noted in paragraph 47, should either be viewed as a by-product of the AUP engagement or a multi-scope engagement.
43.	ICASL	Agree with the Working Group's view that if there any recommendations, those should be clearly distinguished from the procedures and factual findings. The reason for that is recommendations are mostly a by-product of an AUP engagement.
44.	ICAZ	Yes- we agree with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings in an AUP report. The provision of recommendations does not form part of a report on factual findings as recommendations are of a subjective nature rather than factual. Recommendations provided by the practitioner are based on professional judgement, therefore should be clearly distinguished from the factual findings, and provided in a separate report with an appropriate disclaimer where necessary.
45.	ICPAU	<ul style="list-style-type: none"> • Yes. • Recommendations add value/communicability of the report and should highlight the risk as well as extent of implementation including resources.
46.	ISCA	<p>4.1 We note that the circumstances may differ in regard to recommendations made in conjunction with AUP engagements. In some cases, recommendations may be relevant to the entity but not to third party users of the report (such as in a one-off engagement). Hence, it may not be relevant to have recommendations in an AUP engagement.</p> <p>4.2 In other situations, some practitioners performing the AUP may also be the statutory auditor of the entity. Recommendations on matters noted during an AUP engagement may already be included in the management letter issued as part of the financial statement audit. Hence, depending on the circumstances, practitioners may present recommendations, if applicable, differently. The revised ISRS 4400 should allow the presentation of recommendations in different forms, as long as they are clearly distinguished from the procedures and factual findings.</p>
47.	KICPA	Not distinguishing recommendations from the procedures and factual findings would invite a circumstance where AUP report users mistakenly believe that the relevant recommendations provide assurance, just as audit opinions or review conclusions do. Given this, we support the Working Group's view to clearly distinguish recommendations from the relevant procedures and factual findings.
48.	MICPA	Yes, MICPA agrees with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings.
49.	NASBA	Making recommendations similar to a management comment letter could cause confusion as to the scope of work or level of assurance being provided. Recommendations may also contain judgmental or subjective language. We recommend that such recommendations be excluded from an AUP report. However, excluding such recommendations from the AUP report should not limit the ability of the practitioner to provide a separate management letter to the client.
50.	SAICA	90. It is SAICA's view that recommendations should not be provided as part of an AUP engagement. The objective of an AUP engagement is for the practitioner to carry out procedures to which the practitioner, the entity and any appropriate third parties

		<p>have agreed and to report on objectively verifiable factual findings³⁹. The making of recommendations is considered to be subjective in nature is therefore outside of the scope of an ISRS 4400 engagement.</p> <p>91. In response to the question posed in the Discussion Paper, 97% of the survey respondents agreed with the Working Group's view that if recommendations were to be provided that they should be clearly distinguished from the procedures and factual findings. The reasons provided for this include the following (it should be noted that some respondents were suggesting that recommendations should be accommodated outside of the AUP report):</p> <ol style="list-style-type: none"> a. Recommendations could be inappropriately interpreted as conclusions which fall outside the scope of ISRS 4400 and should therefore not be included in the AUP report together with the procedures and the related factual findings; b. In line with question 10 above, that deals with restricting the AUP report and the various matters linked thereto, the inclusion of recommendations in the AUP report may increase the risk that these can be misinterpreted by users of the report; particularly parties that do not understand the AUP engagement and the conditions of the engagement; c. Recommendations are a by-product of the AUP engagement and if these are included in the report, an expectation may be created that the practitioner will follow up on the implementation of the recommendations, where there is no such requirement for the practitioner to do so. <p>³⁹ ISRS 4400, paragraph 4</p> <p>92. Almost half of the survey respondents (45%) receive requests to make recommendations either as part of, or in addition to AUP engagements. Furthermore, based on our consultations, it was noted that some practitioners are of the view that recommendations /observations are a natural by-product of conducting an AUP engagement. Based on these results, the revised ISRS 4400 should provide guidance to practitioners on how to approach such requests.</p> <p>93. Survey respondents were asked to indicate how they currently approach a request to make recommendations either as part of, or in addition to AUP engagements. It was found that practitioners normally respond to this as follows:</p> <ol style="list-style-type: none"> a. Issuing a management letter as a by-product of the AUP engagement (55%); b. Entering into a separate engagement (39%); or c. Other (6%). The comment received here was that the recommendations are included in a separate section as part of the AUP report.
51.	SAIPA	Why or why not? Inclusion of recommendations may be interpreted as an opinion or conclusion. In the event that the recommendations are included as part of the report or reporting back to management, clear guidelines must be provided.
52.	SMPC	We agree with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings. Including recommendations is out of the scope of an AUP engagement and should be separately delivered either as a value added by-product, or as a separate engagement in its own right. The distinction would need to be clear in the engagement letter.
53.	WPK	It should be clearly stated that AUP engagements in accordance with ISRS 4400 do not include recommendations of the professional accountant. Recommendations require professional judgement – partly on the facts found – and alter the scope of the engagement, resulting in 'hybrid engagements'.

		Nevertheless the contracting parties may explicitly agree upon the provision of recommendations as an addition to the performance of AUP. In this case the recommendations should be clearly distinguished from the procedures and factual findings.
Individuals and Others		
54.	14000REGISTRY	<p>Recommendations suggest that the EnviroReady Report Accountant may be exercising professional judgement. If recommendations are provided, either to align with the spirit of continual improvement that is a requirement of the standard, we agree they should be:</p> <ul style="list-style-type: none"> • reported separately, clearly distinguishing them as separate from the actual report on the agreed upon procedures, • framed in a positive light or context • contained to what the opportunity is, or rationale for improvement, not prescribe how
55.	ANA	<p>Yes. Recommendations should be distinguished by a separate heading.</p> <p>Many stakeholders find recommendations when integrated as a part of the AUP report to be distracting, specially when they are provided voluntarily and not as a part of the terms of engagement.</p> <p>In any case, we prefer all recommendations to be produced serially in one place and referred to the relevant sections in the main report.</p>