



**RESPONSE FROM ICAS TO THE IAASB EXPOSURE DRAFT -
PROPOSED INTERNATIONAL STANDARD ON RELATED SERVICES
4400 (REVISED) AGREED-UPON PROCEDURES ENGAGEMENTS**

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Background

ICAS is a professional body for more than 21,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business; many leading some of the UK's and the world's great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854.

General comments

We welcome the decision by the IAASB to revise International Standard on Related Services (ISRS) 4400 (Revised) Agreed-Upon Procedures Engagements (AUP). We are aware that the standard has not been updated for some time and hence has not kept pace with the changing business environment and the growing demand for these types of engagements, particularly those associated with grant and funding applications.

We agree with the key considerations identified by the IAASB as those in greatest need of further enhancement and clarification and our initial observations in relation to each of these concepts are as follows:

Professional judgement

We agree that the use of professional judgement to determine the exact nature of an AUP engagement is key to ensuring that the AUP engagement is properly planned and appropriately executed. However, it is also important that ISRS 4400 does not extend to the interpretation of findings nor any recommendations. Practitioners may perform these additional services but normally not as part of an AUP engagement. In spite of this, we acknowledge that there may be instances where the use of judgement may be required during the course of the engagement, hence we support the need for a degree of flexibility to be reflected in the standard.

Independence

We agree with the decision not to include a precondition for the practitioner to be independent when performing an AUP engagement. We do not believe that independence is a requirement when performing an AUP engagement, only objectivity is required.

There is a requirement to include in the AUP report a reference to IAASB Quality Standards as to the independence requirements where applicable, but there is no information required regarding the practitioner's ethical behaviour. We believe that it would be appropriate for the AUP report to similarly inform readers that the practitioner adheres to the International Ethics Standards Board for Professional Accountants (IESBA) Code of Ethics and/or name the specific ethical requirements applicable to the engagement.

Engagement acceptance and continuance considerations

We believe that the requirements and application material regarding engagement acceptance and continuance are very helpful in demonstrating that there may be cases where AUP engagements are not appropriate.

Use of a practitioner's expert

In our opinion, the proposed requirements and application material on the use of a practitioner's expert are appropriate and are intended to mirror the ISA approach to the use of a practitioner's expert. We would also welcome the inclusion of suggested wording on the respective responsibilities of the practitioner and the expert within the illustrative AUP reports that form part of ISRS 4400.

AUP report restrictions

Whilst we believe that the AUP report should be restricted to the intended users, we are aware from experience that this is not always feasible. Therefore, we agree with the inclusion of the potential consequences of making the AUP report available explaining that, depending on the jurisdiction, the distribution and/or use of the AUP report might be restricted.

Other comments

Finally, we believe that it is important to highlight to external parties the differences between assurance engagements and AUP engagements and to manage their expectations accordingly. Subsequently, avoiding the use of terminology that implies that any opinion or assurance is being provided, for example, "in our view", "from our perspective", or "we take the position that" would be helpful.

Our responses to the specific questions are detailed below.

Question 1

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

Response 1

We welcome the clarification and update to the standard and agree that it will better meet the needs of stakeholders. We are aware that some jurisdictions have developed their own local standards due to extant ISRS 4400 being so out of date. Consequently, this may have created some divergence in terms of application. Therefore, we believe that any revisions to update the standard that result in greater consistency in its application are in the public interest.

However, to fully address the public interest issues, we believe that it is important to highlight to external parties the differences between assurance engagements and AUP engagements. We would therefore welcome the production of a communication piece around this issue to accompany the finalised standard.

Question 2

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

Response 2

Professional judgement is the process of making informed decisions about alternative courses of action. In AUP engagements, professional judgement applies, but its role differs from that in an assurance engagement and this should be made very clear to stakeholders. We believe that this may be achieved by inserting additional wording in paragraph 18 to help clarify that using professional judgement to determine the exact nature of an AUP engagement is key to ensure that the AUP engagement is properly planned and appropriately executed. However, it is also important to emphasise that ISRS 4400 does not extend to the interpretation of findings nor any recommendations. Practitioners may perform these additional services but normally not as part of an AUP engagement.

Nevertheless, there may be instances where some judgement may be necessary during the course of the engagement hence we support the need for a degree of flexibility to be reflected in the standard.

Question 3

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

Response 3

We agree with the decision not to include a precondition for the practitioner to be independent when performing an AUP engagement. We do not believe that independence is a requirement when performing an AUP engagement, only objectivity is required.

However, it would always be possible for the specific intended users to require independence as part of the engagement if necessary.

Question 4

What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the Explanatory Memorandum, and the related requirements and application material in ED-4400? Do you believe that the practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.

Response 4

Independence is an important and topical issue for the auditing profession at the moment emphasising the need for greater clarity and transparency about this matter. We agree that specific clarification is useful when the AUP engagement is not subject to an independence requirement. Furthermore, we agree that when a practitioner carrying out an AUP engagement is required to be independent, the AUP report may include a statement that the practitioner has fulfilled relevant independence criteria (together with the basis for determining independence, where applicable).

Question 5

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

Response 5

We do not agree with the use of the term “findings” in the related definitions and application material. We are concerned that changing the term used in extant ISRS 4400 from “factual findings” to “findings” (notwithstanding that the proposed definition of “findings” clarifies that these are indeed factual in nature) may cause confusion in this area, as it may be perceived as indicative of a change in substance, which is not the intention of the IAASB.

Consequently, we believe that ISRS 4400 (Revised) should continue to refer to “factual findings” consistently throughout.

We also note the concerns the IAASB has expressed in paragraph 34 of the Explanatory Memorandum that misleading terminology might contribute to ongoing market confusion over what an AUP engagement entails. This is an issue encountered in practice, where AUP engagements are often described in contracts by persons that are not familiar with the IAASB pronouncements. It would also be helpful for the application material in A23 to point practitioners to additional words and phrases that ought to be avoided in a report because they indicate that the findings are not factual, like “in our view”, “from our perspective”, or “we take the position that”.

Question 6

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

Response 6

The requirements and application material regarding engagement acceptance and continuance are very helpful in demonstrating that there may be cases where AUP engagements are not appropriate. The proposed amendments should ensure that the practitioner understands what is expected from them and whether the engagement makes sense.

Question 7

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

Response 7

The proposed requirements and application material on the use of a practitioner's expert are appropriate and are intended to mirror the ISA approach to the use of a practitioner's expert. We would however suggest that the same wording is used as that in the ISAs.

Nevertheless, ISRS 4400 could be clearer in defining situations where a practitioner has recourse to an expert.

Paragraph 28(b) requires an advance determination of the practitioner's ability to be sufficiently involved in the work of the expert. In our view, this is a prerequisite to the practitioner accepting the engagement. We would suggest that this would be more appropriately dealt with in the section on engagement acceptance and continuance.

Where special technical competence is required, the AUP report would need to describe who performed the procedures and note the special technical competence required. It would also be beneficial if ISRS 4400 included suggested wording on the respective responsibilities of the practitioner and the expert for insertion within the illustrative AUP reports.

Question 8

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

Response 8

We believe that conceptually, the AUP report should be restricted to the intended users. Nevertheless, we are aware from experience that this is not always feasible. Therefore, we agree with the potential consequences of making the AUP report available as included in paragraph A43 of the application material, explaining that depending on the jurisdiction, the distribution and/or use of the AUP report might be restricted.

Question 9

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

Response 9

We would support an increased use of headings and sub-headings to help improve the readability of the report.

Question 10

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

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

Response 10

- (a) We have not identified any translation issues.
- (b) We agree with the effective date, but an extensive outreach and communication campaign would be advisable to ensure that other stakeholders are fully aware of the changes.