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March 14, 2019

Dr. Arnold Schilder
Chairman
International Audit and Assurance Standards Board (IAASB)
New York, NY

Dear Dr. Schilder,

Re: Agreed-Upon Procedures Engagements – ISRS 4400 (Revised) – Comment Letter

We are pleased to submit our comments on the exposure draft (ED) for the proposed International Standard on Related Services 4400 (Revised), Agreed-Upon Procedures Engagements. We commend the IAASB for undertaking this important project and developing a revised standard of high quality.

As part of its investment project financing operations, the World Bank relies on agreed-upon procedures (AUP) reports from professional accountancy firms or supreme audit institutions to obtain periodic independent verification of expenditures eligibility, compliance with procurement guidelines or physical existence of project deliverables. Overall, we believe the ED reflects well the constituents' feedback on the November 2016 Discussion Paper and, when adopted, it will bring much-needed improvements to the current standard.

With respect to the independence of the practitioner performing the AUP, we are of the view that, for those AUP engagements designed to increase accountability around funding and grants, the ethical principle of objectivity would not provide a sufficient degree of confidence to the report's users. We explain our reasoning in the attached comment table.

We trust these comments will be useful.

Sincerely,



Attachment

Question	Response
<p>Public Interest Issues</p> <p>1) Has ED-4400 been appropriately clarified and modernized to respond to the needs of stakeholders and address public interest issues?</p>	<p>The ED would bring significant improvement to the AUP standard – e.g., by broadening the scope of AUP engagement to include non-financial subject matters, by removing some of the report restrictions and by addressing the issue of quality control. The explanatory memorandum provides an excellent summary of these improvements. Our main concern has to do with the issue of professional judgment and independence (see below).</p> <p>We, however, believe that the ED should include a discussion on the <i>nature</i> of an AUP and which clearly brings out and distinguishes between an agreed upon procedures engagement and a limited assurance engagement. This is because we believe this distinction is critical to assist in users in identifying whether they require an AUP report on findings (and consequently no assurance) or some level of assurance for which other forms of engagements are more suitable (e.g. assurance engagements in accordance with ISAE 3000).</p>
<p>Professional Judgment</p> <p>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?</p>	<p>We welcome the new references to professional judgment in the AUP standard. The definition in the ED is fully consistent with the definition provided in the IAASB Handbook (Glossary of Terms). However, the new requirements on professional judgment (Para. 18) would limit its application to accepting and conducting the AUP engagement. In our view, it should also extend to the formulation and presentation of the findings. Indeed, performing an AUP on certain types of subject matters may require the practitioner to apply professional judgment. A case in point is “compliance with contract and regulations” (see last example in Para. A2), as compliance may entail meeting the letter and spirit of said contract or regulations, depending on the context.</p> <p>We note in this respect that the description of the circumstances in which the application of professional judgment in AUP engagement in Para. A15 is much broader than in Para. 18.</p>
<p>Practitioner’s Objectivity and Independence</p> <p>3) Do you agree with <u>not</u> including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)?</p>	<p>We agree that the fundamental ethical principle of objectivity – which all professional accountants who are subject to the IESBA Code (or equivalent) must abide by – is of critical importance in an AUP engagement. However, as indicated in the IESBA Code’s Glossary “independence” is not only about objectivity. Indeed, it also allows the practitioner to act with integrity and exercise professional skepticism. We would therefore encourage the IAASB to consider including a reference to integrity in addition to objectivity in the last sentence of Para. A12.</p> <p>As an international financial institution, we could not accept that the practitioner performing the AUP would not be independent from the party responsible for the</p>

Question	Response
<p>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?</p> <p>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.</p>	<p>information subject to the AUP. Moreover, if an AUP engagement is meant to help “increased accountability around funding and grants” (first paragraph in the explanatory memorandum), our view is that relying on a non-independent practitioner cannot achieve that purpose.</p> <p>A simpler decision tree with the following sequence might be more helpful. It could be presented as follows:</p> <p>(i) is independence required? If not, no further enquiry would be needed. If the answer is Yes:</p> <p>(ii) is the practitioner independent?</p>
<p>Findings</p> <p>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?</p>	<p>The term “findings” (not preceded by “factual”) seems more appropriate. However, the definition in Para. 13 (“factual results of procedures”) is very restrictive. As explained above (see Professional judgment), some findings as in an AUP engagement might require the application of professional judgment.</p> <p>The explanatory memorandum (Para. 26) draws a sharp contrast between “objectively verifiable factual findings” and “subjective opinions and conclusions”. Conclusions based on facts and the application of professional judgment (and potentially professional skepticism) cannot be viewed as the same as “subjective opinions”.</p>
<p>Engagement Acceptance and Continuance</p> <p>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?</p>	<p>The requirements are appropriate in our view.</p>
<p>Practitioner’s Expert</p> <p>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?</p>	<p>We note that the language used in the ED is based on ISA 620, Using the Work of an Auditor’s Expert. In our view, however, the notion of “practitioner’s experts, which covers both internal (within the firm and within the same network) and external is potentially confusing. In some jurisdictions, the notion of network firm is not clearly established in professional standards. In addition, it seems the use of an expert as part of an AUP is only an issue when the expert is “external”. The IAASB should determine whether the benefits of providing greater clarity outweighs those of maintaining consistency between the auditing and AUP standards.</p>

Question	Response
	<p>In addition, the application material (possibly Para. 36) could clarify that the practitioner should assess whether it possess competencies necessary to evaluate the expert’s work, and that, if it is unable to conclude affirmatively, it should not accept the engagement.</p>
<p>AUP Report</p> <p>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?</p> <p>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?</p>	<p>We agree distribution of the AUP report should not be subject <i>ex-ante</i> to the restriction mentioned here. However, the report might contain confidential information which might require restricting the distribution of the AUP report. We note that Para. A13 explicitly mentions objectivity as a “minimum ethical requirement” but does not mention confidentiality. We would encourage the IAASB to affirm the relevance of the fundamental principle confidentiality in the AUP standard.</p> <p>The structure of the AUP report could draw from that of the audit report in ISA 700 (revised), with the view to giving more emphasis to the results of the engagement and less to standard language. In that regard, the long sentence on ISQC1 and the second paragraph could be moved to after the presentation of the findings.</p> <p>Moreover, the description of the detailed findings can sometimes involve lengthy descriptions and, in the absence of exception, their exhaustive presentation is likely to be of lesser value to the user. The standards could explicitly allow the practitioner to include the presentation of exceptions in the body of the report of the full detailed findings in an annex.</p>
<p>Other matters</p> <p>(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.</p> <p>(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</p>	<p>We have not identified specific issues which would raise a concern in terms of the quality of translations. We note the areas where significant changes or additions have been made (e.g., “practitioner” instead of “auditor”; quality control; use of experts; independence; and professional judgment) are dealt with in other IAASB standards which have already been widely translated.</p> <p>In our view, a relatively short transition period (12 to 18 months) would be practicable given the nature of the changes made to the extant standard. We believe the benefits of using promptly an improved standard would outweigh the potential risks associated with the adjustment accountancy practitioners will need to make to meet the new standards. So, we would encourage the IAASB not to delay effective application beyond 18 months after final approval of the standard.</p>

Question	Response
<p>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.</p> <p>Additional comments:</p> <ul style="list-style-type: none"> • Illustrative example of AUP reports (Appendix 2 to the ED) 	<p>Both examples provided deal with the same AUP engagement, except that in one case the practitioner relies on an external expert. It would be of great value to the IAASB stakeholders to provide additional examples for engagement of different natures (e.g., on compliance with regulation, forward-looking financial information and compliance with financial covenants).</p>