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Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
585 Fifth Avenue - 14th Floor
New York, NY 10017
U.S.A.

Re: IAASB Exposure Draft: *Proposed International Standard on Related Services 4400 (Revised) - Agreed-Upon Procedures Engagements*

Dear Mr. Botha

BDO International Limited¹ (BDO) is pleased to have the opportunity to comment on the International Auditing and Assurance Standards Board (IAASB) Exposure Draft - *Agreed-Upon Procedures Engagements* (AUP).

In general, we are very supportive of most of the requirements and guidance included within the Exposure Draft. Our only significant difference is that we do not believe that there should be any disclosures in the AUP report when independence is not required, as described in further detail in our response to question 4 below.

Additional comments on other less significant issues, but which may assist with the work of the IAASB, are provided below.

Overall Question

Public Interest Issues Addressed in ED-4400

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

We agree that ED-4400 has been appropriately modernized to respond to the need of stakeholders, particularly with respect to expanding the intended users to those beyond the engaging party. Many intended users of AUP reports are regulators so ED-4400 is a significant improvement over the extant AUP standard in that regard.

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In addition, expanding the scope in ED-4400 to explicitly cover non-financial subject matters also responds to feedback received regarding the needs of stakeholders.

We agree that ED-4400 also addresses public interest issues by incorporating additional requirements and guidance around professional judgment, quality control, and better communication of procedures and findings that are objectively described and verifiable in the AUP report.

With respect to the relationship between ISQC 1 and AUP engagements, the application guidance in paragraphs A3 - A8 is helpful. However, we feel that including paragraph A6 within the requirements would make it much clearer how ISQC 1 applies to AUP engagements. Paragraph A6 currently states that: “Within the context of the firm’s system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement.”. We believe that ‘having a responsibility to implement’ such quality control procedures applicable to AUP engagements is equivalent to a requirement to implement quality control procedures at the engagement level. Moving paragraph A6 to the requirements, perhaps before paragraph 19, would make that much clearer to engagement teams, particularly since paragraph 19 in ED-4400 currently implies that only the engagement partner has a responsibility with respect to engagement level quality control on AUP engagements.

Finally, we believe that the standard has been appropriately clarified; we did not identify any issues with how the clarity conventions have been applied.

Specific Questions

Professional Judgment

- 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?

Regarding the definition of professional judgment in paragraph 13(j), it is not clear which professional standards are to be used. Consider revising the definition to say: “ ... within the context of ISRS 4400, ...” or “ ... within the context provided by professional standards governing the engagement, ...”.

The requirement in paragraph 18 also does not clarify which professional standards are relevant. If the definition of professional judgment in paragraph 13(j) is not revised, perhaps paragraph 18 should specify that professional judgment is applied in the context of the requirements and guidance in ISRS 4400.

We agree with the guidance and examples provided in the application guidance paragraphs regarding the application of professional judgment in an agreed upon procedures engagement. In particular, the examples are very useful in describing when professional judgment may be needed in an AUP engagement.

Practitioner's Objectivity and Independence

- 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?

Yes, we agree with not including independence as a precondition for the practitioner when performing an AUP engagement. For these engagements, the terms of the engagement are agreed to with the engaging party. The terms are required to include the nature of the agreed-upon procedures and an acknowledgement by the engaging party that the procedures are appropriate for the purpose of the engagement as well as the nature, timing and extent of procedures to be performed. In addition, the report includes the findings from each procedure performed, including details on exceptions found. Given the factual nature of the results in an AUP engagement, this would likely reduce susceptibility to potential bias. Based on the terms of the engagement and the nature of the procedures, we believe that maintaining 'objectivity' is sufficient and therefore, independence should not be a pre-condition. Adopting this approach for practitioners performing non-assurance engagements, such as AUP engagements, also ensures that ED-4400 does not become inconsistent with the IESBA Code.

- 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.

The practitioner is not required to be independent under ED-4400 or the IESBA Code of Ethics.

If there is a reason why the practitioner is required to be independent (i.e., due to law or regulation, local ethical requirements or the terms of the engagement), then an independence determination would be required. If the determination showed that the practitioner was independent, this information would be readily available for the practitioner to disclose that they are required to be independent and are independent. This would be one of the terms of the engagement and therefore, it makes sense to disclose this information. If the determination showed they were not independent, they would not accept the engagement.

If the practitioner is **not** required to be independent, we do not believe disclosure is necessary. This disclosure would lead to lack of uniformity in reporting which could cause confusion to users or place a higher level of value on reports that do not contain disclosure of the lack of independence. For example, for an engagement where there is no requirement to be independent, depending on the practitioner, the current proposal within the exposure draft could lead to three different types of disclosure:

1. Where the practitioner has assessed and determined their independence, the report would state that the practitioner is independent;
2. Where the practitioner has not assessed their independence, the report would state that the practitioner is not required to be independent; or
3. Where the practitioner has assessed or knows that they are not independent, the report would state that the practitioner is not independent.

For the reasons noted above, our recommendation is that if independence is not required, no disclosure is necessary, not even when it is known that the practitioner is not independent. This would require removal of paragraphs 30(f)(ii) and 30(g) in ED-4400.

As a minor point, where independence is required for the AUP engagement, it is unclear what is intended by requiring disclosure of the basis for determining that the practitioner is independent. If this is just intended to be a reference to the rules against which independence was assessed (e.g., IESBA Code of Ethics, specific local independence rules, etc.), as shown in the illustrative reports in the appendix, then perhaps the wording in paragraph 30(f) should be changed to make that clearer.

Findings

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?

In general, we support use of the term ‘findings’ and the related definitions and application guidance in ED-4400.

However, paragraph A11 does not provide any explanation of what might be unique about certain jurisdictions that would prompt them to use the term ‘factual findings’ instead of just ‘findings’. Perhaps some additional explanation or an example could be added to paragraph A11 to provide some context.

Engagement Acceptance and Continuance

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?

Yes, we concur with the requirements specific to accepting or continuing AUP engagements in paragraphs 20 and 21.

The examples provided in paragraphs A22 - A24 regarding acceptable and unacceptable terminology are helpful to practitioners because they are specific.

The guidance in paragraph A25 is also very helpful to practitioners in applying paragraph 20(b) because it provides specific actions that can be taken to rectify a situation where procedures are specified in law or regulation but they are unclear or not objectively worded.

Similarly, the guidance in paragraph A26 provides practical actions to help the practitioner determine if the procedures are appropriate for the purpose of the AUP engagement and thus will meet the needs of the engaging party.

Regarding the requirement in paragraph 22(c) to include in the engagement letter the intended users of the agreed-upon procedures report as identified by the engaging party, we do not believe this needs to be a requirement, particularly when there are intended users who are different than the engaging party. In certain legal environments, it may be problematic for the engagement letter to identify third parties who are the intended users of the report. Even if the engaging party will send the report to 3rd party intended users,

we do not believe this needs to be documented in the engagement letter in every case. We would agree with the application guidance suggesting that the practitioner may want to include 3rd party intended users identified by the engaging party in the engagement letter, particularly if such 3rd party intended users will be addressees in the report.

We note that the sample engagement letter in Appendix 1 does not include any sample wording with respect to listing the 3rd party intended users, presumably because the only intended user is the engaging party in that situation. We agree with leaving such wording out of the sample engagement letter if listing the 3rd party intended users is only application guidance rather than a requirement.

Practitioner's Expert

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?](#)

Generally speaking, we agree with the proposed requirements relating to use of a practitioner's expert and references to the use of the expert in the AUP report.

However, we note the following minor issues that should be clarified:

- The definition of practitioner's expert in paragraph 13(i) refers to 'possessing expertise in a field other than assurance'. We believe that this definition should also include accounting (i.e. 'possessing expertise in a field other than accounting or assurance').
- The definition of practitioner's expert in paragraph 13(i) also states: 'A practitioner's expert may be either a practitioner's internal expert (who is a partner or staff, including temporary staff, of the practitioner's firm or a network firm) or a practitioner's external expert'. However, the definition of 'Engagement team' in paragraph 13(e) explicitly excludes the practitioner's external expert but is silent on the practitioner's internal expert. That leads us to conclude that a practitioner's internal expert is always a member of the engagement team. We believe that circumstances may arise where a practitioner's internal expert may be used on an AUP engagement but they may not be operating as a member of the engagement team. We think this scenario should be allowed under the definition of engagement team (i.e., there may be circumstances where practitioner's internal experts are also excluded from the engagement team).
- In addition, paragraph 28 does not distinguish between practitioner's experts on the engagement team versus practitioner's experts that are not on the engagement team when describing the work that must be done when using a practitioner's expert. We believe that some application guidance would be helpful which allows certain requirements in paragraph 28 to be handled through the firm's quality control processes for practitioner's experts that are members of the engagement team.

AUP Report

- 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?

We agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed. As the IAASB has itself acknowledged in the Introduction to ED-4400, AUP reports may often be required to be provided to users (such as regulators) who are not party to the original terms of the engagement. This reality should not be overlooked.

In addition, we support the inclusion of the application guidance in paragraph A43 of ED-4400 which allows practitioners to consider including a statement that the report is intended solely for the engaging party and the intended users, which may be achieved by restricting distribution or use of the agreed upon procedures report, if considered necessary in the circumstances. As A43 is itself largely based on A21 in ISA 800 (Revised), in our view this creates a consistent approach. As an international network of firms, we recognise that the nature of local laws and regulations can result in different practices in terms of distributing these types of reports. We feel that A43 provides the necessary flexibility for practitioners to restrict use or distribution when they feel it is necessary due to local laws and regulations, risk management policies or other reasons.

However, the current wording in A43 implies that restricting use / distribution is the exception to the rule. We feel that restriction on distribution should be the normal situation, but if considered appropriate, the practitioner can decide to remove this restriction. In addition, it may be useful to provide guidance on situations where it is appropriate to not restrict use or distribution.

- 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?

We support the content and structure of the proposed AUP report, except for the requirements in paragraphs 30(f)(ii) and 30(g) regarding independence (as discussed above).

We also present below some minor suggested wording changes to the reporting requirements and the illustrative reports in Appendix 2:

- In requirement 30(h)(i), we suggest deleting ‘the practitioner and’ to keep the emphasis on the engaging party, not the practitioner, for approving the procedures, as shown below.

“An agreed-upon procedures engagement involves the practitioner performing the procedures that have been agreed to by ~~the practitioner~~ and the engaging party, and reporting the findings based on the procedures performed; and ...”

- Correspondingly, in the 2nd paragraph of the illustrative reports, we suggest deleting ‘us and’ as shown below to match the wording in the 1st paragraph of the illustrative report and to keep the emphasis on the engaging party rather than on the practitioner.

“An agreed-upon procedures engagement performed in accordance with ISRS 4400 (Revised) involves our performing of the procedures that have been agreed to by ~~us~~ ~~and~~ [Engaging Party], and reporting the findings based on the procedures performed.”

- In illustrative report 2, the scenario at the top states that there is a restriction on the use or distribution of the report. However, the sample wording provided in the illustrative report is only a restriction on distribution. We suggest removing ‘use or’ from the scenario so that illustrative report 2 is only a restriction on distribution, as the current wording reflects.

Other Comments on ED-4400

- **Paragraphs 27 and A34 on written representations** - We do not believe it should be a requirement to consider if it is necessary to request written representations from the engaging party. Since an AUP engagement is not providing assurance, in our view we should not ask the practitioner to consider on every AUP engagement if a representation letter is necessary. We note that the explanatory memo accompanying ED-4400 made a good case (responsible party considerations, non-assurance nature of AUP and acceptance of terms of engagement) about why a representation letter would usually not be needed. Staying silent on this issue in the standard would not prohibit anyone from requesting such a letter if the circumstances warranted it.
- **Paragraphs A38, A9 and A15 - use of the term ‘responsible party’** - It is not clear who the responsible party is in an AUP engagement; the term is not included in the definitions section. Normally responsible parties are relevant in assurance engagements but since an AUP engagement is not an assurance engagement, use of the term ‘responsible party’ may inadvertently create an association that would be inappropriate. There are no requirements related to responsible parties so these application paragraphs are confusing. In particular, the discussion in A38 for the practitioner to consider obtaining the responsible party’s agreement in order to include the name of the responsible party in the agreed-upon procedures report is confusing because there do not seem to be any references to the responsible party in the AUP report. If it is considered necessary to retain references to the responsible party in an AUP engagement, the term should be defined in paragraph 13.
- **Paragraph A32 on engagement letters in recurring engagements** - Consider adding ‘A change in management’ as another bullet in this paragraph.



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Request for General Comments

- 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.

From a drafting perspective, while we understand the distinction between use of ‘therefore’ and ‘therefor’, we note that this latter term is quite legalistic and used infrequently. Continued use of ‘therefor’ (see paragraphs 30(f)(i) and 30(f)(ii)(b)) may be lost in translation or simply be misinterpreted by users of the standard.

We believe that a shorter period between the approval of the final ISRS and the effective date would be possible. However, if the effective date is 18 - 24 months after approval of the ISRS but early adoption is encouraged, that would be a better alternative to meet the needs of those jurisdictions where the adoption of revised ISRS 4400 is a more substantive change from current practice.

We appreciate the opportunity to comment on the IAASB’s ED-4400. We hope that our comments and suggestions will be helpful to you in your deliberations and finalisation of ISRS 4400 (Revised).

Please contact me should you wish to discuss any of these comments.

Yours sincerely,

BDO International Limited

Chris Smith

Global Head of Audit and Accounting