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Discussion Paper, Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB’s International Standards

Dear Mr. Waldron

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the Discussion Paper, Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB’s International Standards (the Discussion Paper), issued by the International Auditing and Assurance Standards Board (IAASB).

We appreciate the need for the IAASB to revisit the relevance of ISRS 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information, to determine whether it continues to be fit-for-purpose for today’s agreed-upon procedures (AUP) engagements given the age of the standard and the fact that it is not drafted in the clarity format. Our experience in practice is that ISRS 4400 remains operable, including with respect to the engagement quality that results from its application, and we do not see a need for wholesale changes. We acknowledge, however, that certain National Standard Setters have since revised their respective national standards to address AUP engagements, and we support the IAASB’s consideration of the potential international relevance of the revisions made to these national standards.

We note that the IAASB has indicated in its 2017-18 Work Plan that, subject to the support of its stakeholders, it plans to commence revision of ISRS 4400 in 2017. We do not see an urgency to revise ISRS 4400 in the 2017-2018 time period, in particular because we agree with the current priority projects on the IAASB Work Plan (i.e., accounting estimates, ISA 315 (Revised), quality control and group audits) and we believe these projects already stretch the capacity of the IAASB.

Should the IAASB determine to commence a project to revise ISRS 4400 in 2017-2018, we strongly encourage the IAASB to maximize its efficiency by leveraging the work already done by National Standard Setters to the extent deemed relevant. Further, we believe that any substantial enhancements or changes to the principles in ISRS 4400 should be prioritized such that only those that are needed to maintain the relevance of ISRS 4400 in the current environment are addressed. We acknowledge that there may be other possible enhancements or improvements that could be of some benefit, but we believe that the efforts of the IAASB, given its capacity limitations, are best spent on its priority projects, which we believe will have more meaningful effects on engagement quality.

Of the enhancements being explored by the Working Group, we view the following enhancements as most beneficial to maintaining the relevance of ISRS 4400 in the current environment:

- Expanding the scope of ISRS 4400 to address AUP engagements related to non-financial information
Updating the current requirement for the practitioner to include a restriction on the distribution of an AUP report to the engaging parties to address circumstances when AUP reports are appropriately distributed to other parties or posted online (including when required by law or regulation).

Our responses to the specific questions in the Discussion Paper are set out below.

The role of professional judgment and professional skepticism 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?

Yes, this is consistent with our views on the role of professional judgment in an AUP engagement. Further, we believe that professional judgment (and professional skepticism) remain applicable, and should be applied, in the activities of the practitioner related to engagement acceptance and agreeing the terms of an AUP engagement. Once the purpose of the engagement, procedures to be performed by the practitioner, and the specific users of the report have been agreed, we agree that the practitioners’ performance of the procedures should result in objectively verifiable factual findings and not subjective opinions or conclusions.

As practitioners are required to comply with relevant ethical requirements (other than independence) to perform AUP engagements, we agree that practitioners are obligated to respond to any matters that come to their attention during the performance of an AUP engagement that warrant a response under relevant ethical requirements (e.g., non-compliance with laws and regulations), which may involve the exercise of professional judgment. Practitioners also, in our view, cannot ignore any contradictory evidence, any indications that evidence is not reliable or genuine, or any matters that arise that cause the practitioner to doubt the integrity of management.

Q2. Should revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?

We do not believe that requirements relating to professional judgment are necessary to include in revised ISRS 4400. We agree with the Working Group’s suggestion to include a discussion in the introductory section that the role of professional judgment in an AUP engagement is in the context of professional competence and due care. We also believe that the uses of professional judgment and professional skepticism in an AUP engagement that we highlight in our response to Q1 could be included in the introductory section or relevant application material. We do not believe there are any intended consequences of doing so.
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?

We believe the current requirements in ISRS 4400 related to the practitioner’s compliance with relevant ethical requirements are appropriate for an international standard for AUP engagements. That is, compliance with the International Ethics Standards Board of Accountant’s (IESBA) Code of Ethics (or local equivalent) except with regard to independence should be required, and if the practitioner is not independent, a statement to that effect should be required to be included within the AUP report.

Although we appreciate that certain jurisdictions do require independence (of at least the practitioner if not always the firm) for AUP engagements, we believe it is appropriate for the decisions regarding independence to be left to individual jurisdictions, including law or regulation that may govern particular AUP engagements. Our view is due to the fact that an AUP engagement is designed to fulfill a specific purpose for specific users and accordingly, the nature of AUP engagements can vary widely within and across jurisdictions. We believe creating an independence requirement in the international standard for such engagements could have unintended consequences and that there would need to be a compelling reason to make such a change, including evidence that a lack of independence has negatively affected the quality of AUP engagements in many instances. We are not aware that this is the case.

Our view is dependent upon the AUP report being restricted to specific users that are identified in the terms of the engagement and named in the AUP report. If the IAASB should consider lifting the restrictions on the use of the report as part of its revisions to ISRS 4400, then the requirements related to independence would need reconsideration. We, however, do not support lifting such restrictions as expressed in our response to Q10.

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 you views change if the AUP report is restricted?

We do not believe that the requirements of ISRS 4400 need to be amended to prohibit or prescribe the nature of terminology to be used for the description of the procedures or the factual findings in the AUP report. Instead, we would prefer an approach similar to that taken in paragraph A47 of ISA 701, Communicating Key Audit Matters in the Independent Auditor’s Report, which sets forth guiding principles in the application material related to the descriptions of key audit matters. Our views are not dependent on whether the report is restricted.
AUP engagements 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?

We support an expansion in scope of ISRS 4400 to include engagements regarding non-financial information, including as a potential engagement alternative to address entities’ emerging forms of external reporting (see our response to Q6).

For all AUP engagements, regardless of whether related to financial or non-financial information, we support a pre-condition for engagement acceptance that the practitioner determine that the persons who are to perform the engagement collectively have the appropriate competence and capabilities to perform the procedures.

Q6. Are there any other matters that should be considered if the scope is clarified to include non-financial information?

In our letter to the IAASB’s Discussion Paper, Supporting Credibility and Trust in Emerging Forms of External Reporting, we expressed our view that the IAASB should consider the role that AUP engagements could have in this space. We believe that an AUP engagement may be an effective alternative to an assurance engagement to address management needs in certain circumstances, particularly for certain types of non-financial information that management may be assembling in its journey toward integrated reporting and while relevant reporting frameworks, and experience in applying them, continue to evolve. We encourage the IAASB to further explore potential uses for AUP in terms of entities’ emerging forms of external reporting, which in turn may reveal additional potential enhancements to ISRS 4400 or related supplemental guidance.

Using the work of an expert

Q7. Do you agree with the Working Group’s views that ISRS 4400 should be enhanced for the use of experts in AUP engagements? Why or why not?

We believe it is appropriate to enhance ISRS 4400 for the use of experts, particularly if the scope of ISRS 4400 is expanded to address engagements related to non-financial information. As we express in our response to Q5, we support a pre-condition for the acceptance of any AUP engagement that the practitioner determine that the persons who are to perform the engagement collectively have the appropriate competence and capabilities to perform the procedures. Such determination should include that experts have appropriate competence and capabilities. In addition, the practitioner should evaluate the objectivity of the expert.

We agree that the procedures to be performed by the expert should be agreed in the terms of the engagement, and that the practitioner is responsible for determining that the procedures performed by the expert are in accordance with the terms of the engagement. The practitioner also should be responsible for the description in the AUP report of the procedures performed and factual findings therefrom.
Format of the AUP report

Q8. What are your views regarding the Working Group’s suggestions for improvements to the illustrative AUP report?

We do not view improvements to the illustrative AUP report to present findings and procedures in different formats as a priority, or necessary, for the revision of ISRS 4400.

AUP report restrictions – To whom the AUP report should be restricted

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?

Yes, we agree with Working Group’s views in paragraph 41 of the Discussion Paper that providing the AUP report to a party that is not a signatory to the engagement agreement is appropriate as long as the party has a clear understanding of the agreed-upon procedures and the conditions of the engagement. We agree that one manner in which this understanding may be achieved is when the purpose of the engagement and the procedures to be performed in the AUP engagement are set out in law or regulation.

We also believe that, when specific parties are required or intended to be users of the AUP report, such parties should either become additional signatories to or be identified in the engagement letter. Further, such parties should be identified in the AUP report (see our response to Q10).

AUP report restrictions – Three possible approaches to restricting 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?

We agree that the requirement in ISRS 4400 to include a statement that restricts the distribution of the report to those parties that have agreed to the procedures to be performed should be revisited in light of the current environment. We agree that AUP reports are provided to parties that are not signatories to the engagement agreement, such as regulators, particularly when the agreed-upon procedures are prescribed under law or regulation.

First, we believe that the requirement in paragraph 18(g) of ISRS 4400 for the report to identify the purpose for which the agreed-upon procedures were performed is important to retain regardless of the approach taken related to restrictions on the report. We believe this information is critical for any users or recipients of the report.

In regard to the approach that should be taken to restrict the AUP report, we do not support any of the three distinct options included in paragraph 44 of the Discussion Paper. Instead, we support an approach that requires a restriction on use to be included in the AUP report, but does not require, nor prohibit, a restriction on the distribution of the report.
The AUP report should include, in our view, statements to the effect that:

- The report is intended solely for the specified users for the purpose as set out in the report. The specified users should be named in the report and should only include the signatories to the engagement letter and any other parties that have been specifically identified in the engagement letter (refer to our response to Q9).
- The practitioner disclaims responsibility to any party other than the specified users for any use or reliance on the report for any purpose.

In summary, we believe it is important for the AUP report always to be clear that it was prepared for a specific purpose for specific users, but that distribution does not always need to be restricted to such users. However, should the practitioner deem it appropriate, or if it is required or customary in the jurisdiction to restrict the distribution of the report to only the specified users, then the practitioner may add a restriction on the distribution to the AUP report.

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?

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.

Other issues relating to ISRS 4400

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.

No, we do not believe there are any other areas in ISRS 4400 that need to be improved at this time. However, we support IAASB efforts to promote appropriate application and use of its standards through outreach and various forms of supplemental guidance to educate practitioners and intended users of the nature, value and limitations of, in particular, each type of service that is addressed by the IAASB’s assurance and related services standards, including ISRS 4400.

Multi-scope engagements

Q14. What are your views as to whether the IAASB needs to address multi-scope engagements, and how this should be done? For example, would non-authoritative guidance be useful in light of the emerging use of these types of engagements?

We agree with the Working Group’s position in paragraph 52 of the Discussion Paper that the key characteristic of a multi-scope engagement is that the various elements of the engagement comply
with the corresponding IAASB pronouncements. We do not believe that, other than clearly communicating this principle in some manner, any more work is needed by the IAASB to produce guidance or otherwise address multi-scope engagements at this time.

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

Yes, we agree. It is important that the IAASB standards that form the foundation of the potential elements of multi-scope engagements, including ISRS 4400, are fit for their intended purposes prior to the IAASB addressing engagements that apply these standards in combination.

We would be pleased to discuss our comments with members of the IAASB or its staff. If you wish to do so, please contact Bob Landwehr, Deputy Director, Global Professional Practice (bob.landwehr@uk.ey.com).

Yours sincerely

Ernst & Young Global Limited