

International Auditing and Assurance Standards Board  
International Federation of Accountants  
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Via IAASB website at [www.iaasb.org](http://www.iaasb.org)

Dear Board Members and Staff:

Grant Thornton International Ltd appreciates the opportunity to provide input on the International Auditing and Assurance Standard Board's (IAASB) Exposure Draft – Proposed International Standard on Related Services (ISRS) 4400 (Revised), Agreed-Upon Procedures Engagements (ED-4400).

We welcome the efforts to revise ISRS 4400 and are of the view that ED-4400 appropriately modernizes and redrafts the extant standard in the clarity format. We generally support the proposed new requirements for the performance of an agreed-upon procedures engagement. However, we do have concerns around the following proposals:

- The independence requirements and related disclosures in the agreed-upon procedures engagement report – a level of complexity has been introduced that may not be readily understood by users; and
- The use of an expert in an agreed-upon procedures engagement – given this may require the practitioner to interpret the results of the procedures performed and, as such, would suggest that an agreed-upon procedures engagement would not be the appropriate engagement to perform in the circumstances.

We respectfully submit our detailed responses to the ED-4400, which elaborates on the points highlighted above. We would be pleased to discuss our comments with you. If you have any questions, please contact Sara Ashton at [sara.hm.ashton@uk.gt.com](mailto:sara.hm.ashton@uk.gt.com) or at +1 646 825 8468.

Sincerely,



Anthony Nettleton  
Global Leader – Quality and Risk Management  
Grant Thornton International Ltd

Enc: Responses to Exposure Draft – Proposed International Standard on Related Services 4400 (Revised), Agreed-Upon Procedures Engagements

## Responses to IAASB's Exposure Draft – Proposed International Standard on Related Services 4400 (Revised), Agreed-Upon Procedures Engagements

The following provides our detailed response to the IAASB's request for comments to Exposure Draft – Proposed International Standard on Related Services 4400 (Revised), *Agreed-Upon Procedures Engagements*.

### QUESTIONS

#### OVERALL QUESTION

**Q1. Has ED-4400 been appropriately clarified and modernized to respond to the needs of stakeholders and address public interest issues?**

We are of the view that overall ED-4400 has been appropriately clarified and modernized to respond to the needs of the stakeholders and to address the public interest issues that are identified in paragraph 6 of the accompanying Explanatory Memorandum (EM). As we noted in the response to the IAASB's Discussion Paper on Exploring the Demand for Agreed-Upon Procedures and Other Services and the Implications for the IAASB's International Standards (the Discussion Paper), broadening the scope of the proposed standard to include financial and non-financial subject matters, with examples of such, reflects current practice and therefore a welcome clarification.

#### SPECIFIC QUESTIONS

##### Professional Judgment

**Q2. 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?**

We agree that there is a role for the exercise of professional judgment in an agreed-upon procedures (AUP) engagement and that it is important that the right balance is struck between the exercise of professional judgment and the nature of an AUP engagement whereby the practitioner performs procedures acknowledged by the engaging party.

We are of the view that the definition of professional judgment in the context of an AUP engagement is appropriate, but have the following comments on ED-4400

- We suggest that paragraph A15 be modified as follows for consistency with other references in ED-4400 to the "timing" of procedures: "discussing the nature, ~~timing~~ and extent, and if applicable, the timing of the procedures to be performed".
- With respect to paragraph A16, we find the following sentence confusing:
 

"The more a procedure requires professional judgment, the more the practitioner may need to consider whether the condition that the agreed-upon procedures and findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations is present."

This implies that if professional judgment is required in designing the procedure, it should not be included in an AUP engagement. We are of the view that professional judgment in this instance should be replaced by subjective, i.e., "the more subjective

the procedure, the more the practitioner may need to consider...” as we believe this more accurately depicts the current practice considerations regarding whether procedures are appropriately defined.

### **Practitioner’s Objectivity and Independence**

**Q3. 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 IESBA?**

We agree with not including a precondition for the practitioner to be independent when performing an AUP engagement for the following reasons:

- It would not be appropriate for an International Standard on Related Services to require independence if this is not currently required by the International Ethics Standards board for Accountants’ (IESBA) Code of Ethics for Professional Accountants (the IESBA Code).
- It allows jurisdictions to make their own determination as to whether they require practitioners to be independent when performing AUP engagements.

**Q4. 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?**

We agree with not including a precondition in ED-4400 for the practitioner to be independent in order to perform an AUP engagement and also with disclosing information in the report regarding independence. We note that the proposed reporting requirements are complex, as evidenced by the necessity to use a table in the EM to explain the options. Some users may not be clear about the implications, if any, when the report discloses that the practitioner is not required to be independent or alternatively is not independent. Users may also be confused by this lack of consistency between reports in respect of independence. However, on balance, we believe that this complexity is hard to avoid and that the risk of confusion can be mitigated by timely and appropriate communication.

We also refer to our response to the Discussion Paper regarding the inclusion of a statement in the auditor’s report that the practitioner is not independent. In that response we had recommended that where a statement that the practitioner is not independent is made, the nature of the matter or relationship that causes the practitioner not to be independent should also be included. We note that this practice is consistent with requirements currently existing in certain jurisdictions. For example, in Canada, Rule 204.10<sup>1</sup> requires that the report issued by a practitioner who is not required to be independent discloses “the nature of the activity or relationship and the nature and extent of the interest”. As such, we reiterate this recommendation.

In our response to the Discussion Paper, we also expressed the view that a statement regarding independence have appropriate prominence within the report and are pleased to note that the illustrative AUP reports in Appendix 2 to ED-4400 includes this statement in the first section of the report.

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<sup>1</sup> CPA professional conduct: Auditor independence – Harmonized Rule of Professional Conduct (Rule 204)

## Findings

### **Q5. Do you agree with the term “findings” and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED-4400?**

We support the view expressed by the IAASB and respondents to the Discussion Paper that performing the procedures in an AUP engagement should result in objectively verifiable factual findings and not subjective opinions or conclusions. We also note the IAASB stated in the EM that using the term “findings” instead of “factual findings” better communicates that the results from performing the AUP must be factual. However, we are of the view that removing the term “factual” (from “factual findings”) and only referring to “factual” in the definition of “findings” is contrary to this objective. We understand that using the term “factual findings” may imply that there are findings that are “not factual”, but we are not convinced that this would be a common interpretation and what confusion, if any, it might cause. We recommend reverting to the term “factual findings” throughout the standard for the following reasons:

- The term “finding” is used in the illustrative engagement letter and in the illustrative report in the ED. While the term is defined in the standard, that definition may not be available to users. We believe that using the term “factual findings”, included in both documents, would better communicate the “objectively verifiable” nature of the findings to users.
- It would render redundant the application material paragraph A11 saying that “findings” may also be replaced with “factual findings” in some jurisdictions, since it is not clear to whom this application material is directed (i.e. national standard setter or practitioner).

Regarding the definition of the term “finding”, we recommend that paragraph A10 more explicitly recognize interpretations as follows:

“Factual results are capable of being objectively described and objectively verified, which means that the results do not depend on interpretations made by practitioners and different practitioners performing the same procedures are expected to arrive at the same results.”

## Engagement Acceptance and Continuance

### **Q6. 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?**

We are of the view that the requirements included in paragraphs 20 and 21 are directionally appropriate. However, given the apparent duplication between the two paragraphs we question whether one paragraph that streamlines the requirements would be more appropriate. Further, we recommend that consideration be given to the structure of these paragraphs, irrespective of whether there is ultimately one or two paragraphs in this section. Currently paragraph 20 requires that the practitioner determine that certain conditions are met before accepting an AUP engagement. Paragraph 21 then requires the practitioner to obtain an understanding of the purpose of the engagement. It would seem logical to understand the purpose of the engagement before considering the conditions that need to be met to accept the engagement.

Paragraph A30 describes the iterative process that may exist for determining the procedures to perform in an AUP engagement. We believe this is an accurate description of practice. However, the requirement in paragraph 23 for the practitioner to agree amended terms of engagement that reflect the modified procedures seems very rigid. We are concerned this rigidity will result in initial terms of the engagement that include procedures that are a mere ‘placeholder’ and not reflective of the procedures that will be performed. We recommend the IAASB explore ways to reflect better the iterative process that often exist in practice. For example, the IAASB could:

- Modify the requirement in paragraph 22 to require the acknowledgement that the engaging party recognize or **will recognize** that the procedures are appropriate for the purpose of the engagement before the date of the AUP report. We think this would retain the fundamental principle of the engaging party acknowledging the appropriateness of procedures, while allowing flexibility as to the timing of such acknowledgement.
- Modify paragraph 23 and A30 to reflect the new flexibility allowed by paragraph 22.
- Modify paragraph 32 to require that the AUP report not be dated earlier than the date on which the practitioner has obtained acknowledgement by the engaging party that the procedures are appropriate for their purpose of the engagement.

We also recommend that consideration is given to providing context to the term “misleading.” in paragraph 20(b) as follows:

“The agreed-upon procedures and related findings can be described objectively, in terms that are clear, not misleading with respect to the objective of the engagement, and not subject to varying interpretations.”

The application material associated with paragraphs 20 and 21 largely focus on what procedures would be appropriate when performing an AUP engagement. It would be helpful if the application material could also provide more guidance on what the practitioner should avoid when agreeing the procedures to be performed with the engaging party.

In respect of the related application material in paragraph A28, we question whether “procedures that deal with existence of inventory when the purpose of the engagement is concerned with the completeness of inventory” is an appropriate example of facts or circumstances suggesting that the procedures may be inappropriate. Our experience is that engaging parties and intended users rarely express their information needs in terms of assertions. Therefore, this example will not resonate with many. We think that a better example would be that intended users are specifying that an assurance engagement is required to be performed, but the engaging party is requesting the practitioner to perform an AUP engagement.

### **Practitioner’s Expert**

**Q7. 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?**

We appreciate and understand the intent to make the proposed standard more “future oriented” by recognizing the use of the work of a practitioner’s expert. However, we are not aware of a significant number of AUP engagements that currently require the use of a practitioner’s expert, or would reasonably foresee requiring such use in the future.

Further, we note in paragraph A35, that a procurement officer is considered to meet the definition of a practitioner’s expert. We do not agree that a procurement officer meets this definition and would suggest an actuary performing procedures as an alternative example.

Paragraph 31 requires that where a practitioner’s expert is used and referenced in the AUP report, the wording of the practitioner’s report does not imply that the practitioner’s responsibility for performing the procedures and reporting the findings is reduced because of the involvement of an expert. The related application material notes that in some jurisdictions, law or regulation may require reference to the practitioner’s expert. We are of the view that additional guidance on other circumstances where the practitioner may want to refer to the practitioner’s expert in the AUP report, or the inclusion of a framework to help the practitioner make that decision, would be helpful.

## AUP Report

**Q8. 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 circumstance when the practitioner may consider it appropriate to restrict the AUP report?**

Yes. In our response to the Discussion Paper, we indicated that we supported an approach that would neither require nor preclude the practitioner from including restrictions on the AUP report and that restrictions, if any, would be dealt with by voluntary agreement between the entity and the practitioner rather than be mandated in the standard. As such, we agree with the requirement in paragraph 30 (m) to include in the AUP report a statement that it might not be suitable for another purpose.

We also agree with the inclusion in the application material that it also may be appropriate to indicate that the AUP report is intended solely for the engaging party and the intended users, and that this may be achieved by restricting the distribution or use of the AUP report. However, we note that paragraph A43 only refers to law and regulation in relation to the restriction of the AUP report. Consistent with our response to the Discussion Paper, we would recommend that additional application material is included that provides guidance on matters that the practitioner may want to consider when determining if, and how, to restrict the distribution or use of the AUP report.

**Q9. Do you support the content and the 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?**

Overall, we support the content and the structure of the proposed AUP report as set out in ED-4400. However, we make the following observations:

- Paragraph 30(c) requires the identification of the subject matter on which the procedures have been performed. This identification is not obvious in the illustrative AUP report.
- Paragraph 30(m) requires the identification of the purpose of the AUP report and a statement that the AUP report may not be suitable for any other purpose. We note that this is included as the last section in the illustrative AUP report and question whether this provides sufficient prominence to its purpose.
- Paragraph 30(j) requires the AUP report to include the (factual) findings from each procedure performed, including details on exceptions found. We would recommend that application material be included to clarify that:
  - Professional judgement may not be applied in determining which exceptions to report;
  - Typically all exceptions are reported; and
  - When sampling is used, the concept of an anomaly may not be relevant.

In our experience, these are questions frequently raised by practitioners when preparing an AUP report.

## REQUEST FOR GENERAL COMMENTS

**Q10. 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 ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-4400.**

We have no specific additional comments in respect of translation issues. We reiterate that the term “factual finding” may be capable of being more clearly translated.

- 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 AUP engagements for which the terms of engagement are agreed approximately 18-24 months after the approval of a 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.**

We generally believe that an 18-month period between approval and effective date, with earlier adoption being permitted and encouraged, would be appropriate. However, we note that the IAASB has several other significant standards that will, or are expected to be, effective in 2021-2022. Practitioners and firms will need to devote resources to implementing these changes, while continuing to perform high quality engagements. If the effective date of this standard was to coincide with that of proposed ISA 315 (Revised) or the quality monitoring suite of standards, our preference would be that it be delayed to allow the appropriate amount of focus on updating methodologies and practice guidance for those standards.

Further, we also note that the proposed effective date is determined based on the date on which the terms of the engagement are agreed. We are of the view that the effective date should be based upon the report issuance date and not the agreement of the engagement terms. As noted above in question 6, determining the procedures to be performed in an AUP engagement is an iterative process such that the procedures can be modified throughout the engagement. As such, the terms of the engagement are, in reality, likely not agreed until the engagement is complete.