



## PROPOSED INTERNATIONAL STANDARD ON RELATED SERVICES 4400 (REVISED) AGREED- UPON PROCEDURES ENGAGEMENTS

Issued 12 March 2019

ICAEW welcomes the opportunity to comment on the Proposed International Standard on Related Services 4400 (Revised) Agreed-Upon Procedures Engagements published by the International Auditing and Assurance Standards Board on 15 November 2018, a copy of which is available from [this link](#).

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## KEY POINTS

1. We welcome this exposure draft of proposed ISRS 4400 (Revised) and are broadly content with the approach taken and proposed changes.
2. In our response to the IAASB Discussion Paper, Exploring the demand for agreed-upon procedures engagements and other services, and the implications of the IAASB's International Standards (the Discussion Paper), we highlighted that one of the key issues arising with AUP stems from reporting demands of regulators and other governmental organisations. These reporting demands are often made without a clear understanding of the nature of AUP engagements or the standards that practitioners are expected to follow. The demands may be prescribed in law or regulation, often without any consultation with practitioners or the accountancy profession, and are not easy to make amendments to once prescribed. The revisions to this standard will not, of themselves, resolve these issues and so we call on the IAASB to consider how, in publishing and promoting a revised standard, it will clearly communicate the key messages about the nature of AUP engagements to these stakeholders around the world. Without a broader education programme targeting these stakeholders, expectation gaps are likely to remain.
3. We are broadly supportive of the proposed changes in relation to professional judgement and independence. We would encourage the IAASB to revisit the wording in the proposed Application Material A16 as it lacks clarity at the moment. We would also seek further clarification on the independence requirements as they relate to engagements where there is more than one engaging party. Practitioners clearly need to declare their independence status from the entity subject to the AUP (the responsible party). However, if the practitioner is not independent of a third-party (e.g, a bank or regulator) who is also an 'engaging party', we do not believe that the standard intends for there to be a declaration of independence or not from that 'engaging party'. It would, however, be helpful if the standard could clarify this.

## OVERALL QUESTION

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

4. Yes, we believe that the ED has been appropriately clarified and modernised to respond to stakeholder needs. We are broadly content with the approach taken and proposed changes.
5. As highlighted in our response to the Discussion Paper, making changes to the standard is not, however, enough on its own to address public interest concerns. One of the key issues arising with AUP engagements relates to reporting demands from regulators and governmental bodies. These reporting demands are often made without a clear understanding of the nature of AUP engagements and their limitations. The challenge is how to ensure that stakeholders outside of the profession understand what an AUP engagement is and the requirements of the standard, and seek help from relevant accountancy organisations when considering new reporting requirements. We would encourage the IAASB to consider how, with the publication of this revised standard, it can ensure that these messages are clearly communicated to and understood by regulators and governments around the world. This requires a broader education programme which is aimed at these stakeholders. Without this, expectation gaps are likely to remain.

## SPECIFIC QUESTIONS

### Professional judgment

**Question 2. Do the definition, requirement and application material on professional judgement in paragraphs 13(j), 18 and A14-A16 of ED 4400 appropriately reflect the role professional judgment plays in an AUP engagement?**

6. Yes, we are broadly supportive of the changes in the ED in relation to professional judgement, though we believe that the application material in A16, in particular the last sentence, is vague. The point that we think is being made is that the practitioner would be questioning whether the conditions of an AUP engagement, as defined by the ED, are being met where the performance of a procedure required professional judgement.

### Practitioner's objectivity and independence

**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?**

**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.**

7. Yes, we agree that the ED should not include a precondition for the practitioner to be independent when performing an AUP engagement. We do not believe that a practitioner should be required to make an independence determination when not required to be independent for an AUP engagement.
8. We do believe, however, that the independence provisions in the standards need further clarification in circumstances where there is either more than one party to the engagement (for example, where there might be a tripartite engagement letter) or a different engaging party. It clearly should be the entity subject to the AUP (the responsible party) for which the practitioner needs to declare their independence status. However, if the practitioner is not independent of a third-party requester (e.g, a bank or regulator) we do not believe that the standard intends for there to be a declaration of independence or not from that 'engaging party'. It would, however, be helpful to have further clarification in the standard on this.

### Findings

**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?**

9. Yes.

### Engagement acceptance and continuance

**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?**

10. Yes, we believe they are appropriate, though we believe that more guidance, including examples, could be provided here around defining procedures, as highlighted below.

11. It is helpful to have guidance in the standard that provides practitioners with the ammunition to rebut some of the procedures or report wording being requested by third parties.
12. The illustrative engagement letter and reports in the Appendices of the ED provide helpful illustrations of procedures that have been clearly defined. The application material in A22-A26 could, however, be made more specific about the importance of clearly defining the procedures to be performed, for example, by including an illustration of what would be unacceptable, particularly in relation to A22. Taking the action 'compare' as an example, a procedure that requires 'a comparison of an invoice to a delivery note to see if it is properly prepared' is unlikely to be sufficiently defined without, for instance, confirming the fields to be checked and understanding what is important to the client.
13. As already highlighted, changes to the standard alone will not address the gap in expectation evidenced by requests from government and regulatory bodies for reports that do not meet the conditions in ED 4400. This requires a greater degree of engagement with these stakeholders and the establishment of an education programme covering the nature and scope of AUP engagements.

### **Practitioner's expert**

***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?***

14. We agree with the proposed requirements but believe that illustration 2 in appendix 2 is not as helpful as it could be. Simply stating an expert has been used for a procedure, where it is not readily apparent why an expert would be needed in the first place, does not add much value. If the example explained why the expert was used and how it was done in practice, then it would likely be more useful to users of the report.

### **AUP report**

***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?***

15. Yes. As we noted in our response to the Discussion Paper, we believe that the decision about who the AUP report should be made available to and under what circumstances is a risk management consideration for the practitioner and will depend on the nature of the engagement and the territory in which it is performed (as different territories have different litigation and risk profiles).

***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?***

16. See our comments above about the use of an expert. It would also be useful to include a new illustration or amend an existing one to reflect circumstances where there is more than one engaging party.

### **Request for general comments**

***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—the IAASB welcomes comment on potential translation issues.***

- b) ***Effective Date—Recognising 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.***
17. We believe that this period is more than sufficient to support effective implementation and would go so far as to question whether, given the nature of these engagements, there is a need for such a long implementation timescale for practitioners. We note, however that earlier application is encouraged.