



For the attention of Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, New York, 10017
USA

[Submitted via IAASB website]

15 March 2019

Dear Mr. Botha,

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

We¹ appreciate the opportunity to comment on the IAASB's Exposure Draft (ED).

Agreed-Upon Procedures (AUP) engagements are a valued and widely used service in many jurisdictions across the world. National standard setters in a number of jurisdictions had recognised that the extant global standard was out of date and, consequently, revised their own standards. Revision of the IAASB standard is therefore timely and in the public interest in supporting global consistency.

Overall, we broadly support the IAASB's proposed changes and believe they represent an appropriate response to the public interest issues identified in relation to the conduct of an AUP engagement.

Promoting awareness of the nature and value of an AUP engagement

One of the most challenging public interest issues associated with AUP engagements is the fact that the nature and purpose of these engagements - and how they differ from assurance engagements - is not always well understood. The revised standard will provide an opportunity for meaningful discussion with stakeholders about the nature of an AUP engagement, clarifying what value it can provide as well as what it is not designed to achieve. We encourage the IAASB to use the revision as an opportunity for proactive outreach to key stakeholders, in particular those who commonly commission such engagements (such as funding organisations) and those who may frequently use AUP reports (such as lending organisations), to promote better understanding of the nature and purpose of these engagements.

Range of AUP engagements

What differentiates an AUP engagement from an assurance engagement is how the procedures are selected and designed and what is reported. As the Exposure Draft explains, in an AUP engagement the practitioner performs specific procedures at the request of a user, where the user takes responsibility for deciding whether the scope, nature and extent of these procedures are appropriate to their circumstances. In an assurance engagement, the scope, nature and extent of procedures are

¹ This response is being filed on behalf of the network of member firms of PricewaterhouseCoopers International Limited and references to "PwC", "we" and "our" refer to the PwC network of member firms.

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designed by the practitioner to obtain the evidence the practitioner needs to have the basis for the practitioner's opinion or conclusion on the subject matter.

AUP engagements span a broad spectrum of different engagements with different characteristics, ranging from:

- bespoke engagements designed to meet a specific need of management or those charged with governance;
- engagements to perform specific procedures to meet the needs of specific external users or a class of external users; to
- engagements to perform specific procedures at the request of a regulator or funding agency within a well-defined engagement and reporting framework.

As we considered the proposed revision and the questions asked in the Explanatory Memorandum, we reflected on this range of AUP engagements and evaluated whether we felt the revisions supported that full range. We believe that, with the exception of the few key points noted below, the proposed revision is an appropriate framework to enable practitioners to perform high quality AUP engagements that meet the needs of users in a broad range of circumstances.

Professional judgement

In performing AUP, a practitioner complies with the fundamental principles as set out in the Code of Ethics (or equivalent requirements that are as robust), including objectivity and professional competence and due care. In applying professional competence and due care, the practitioner does not, however, apply significant professional judgement, as the procedures agreed with the engaging party need to be objective and result in objective factual findings.

However, we support the clarification within the proposed standard of the role that professional judgement plays in accepting and conducting an AUP engagement.

As a result, we support paragraph A16 of the application material that recognises that there may be limited judgement necessary in some circumstances. However, we believe the language used may lack sufficient clarity, with the potential for differing interpretations as to how, and the extent to which, the practitioner may apply professional judgement in *performing* the AUP. We provide a suggestion to help better explain this key principle in our response to question 2.

Practitioner independence

Building trust in the services provided by auditors and other practitioners providing other assurance and related services is a shared objective of the IAASB and firms alike. The practitioner's ability to perform the engagement with an objective state of mind is integral to building trust. In many AUP engagements, being independent, and being perceived to be independent, is in the public interest, for example, in relation to AUP engagements to report to a regulator on the use of public funds. In other cases, such as a private report to management, management or those charged with governance can more readily assess the need for the practitioner to be independent based on their understanding of the engagement circumstances.

We agree that it is not within the IAASB's mandate to require the practitioner to be independent as that is a matter for the IESBA to consider within the Code of Ethics. To avoid any ambiguity on the circumstances when independence would be appropriate and in the public interest in an AUP



engagement, we recommend the IAASB ask the IESBA to articulate its views on engagement circumstances when the practitioner should be required to be independent, taking into account the nature of the AUP engagement and the intended users of the AUP report. In addition, we recommend that the standard direct practitioners to consider the public interest in accepting and agreeing the terms of the engagement by considering whether, in the circumstances of the engagement, independence would be appropriate.

Given there may be engagements for which independence is appropriate, and others where it will ordinarily not be necessary, we strongly support the proposed disclosure of the practitioner's independence status in the AUP report in all cases, not just when the practitioner is not, or is not required to be, independent. We provide a number of observations on how we believe the statement could be further clarified and enhanced in our response to question 4.

Engagement purpose and restriction on distribution and use

An AUP needs to have a rational purpose - in other words, the information on which procedures are to be performed, and the procedures themselves, should serve the needs of the identified intended users. In addition to considering the purpose of the engagement (why it is being requested), we believe it is also important that a practitioner consider the rationale for the practitioner's involvement. Is the nature of the engagement and the underlying subject-matter on which the procedures are to be performed relevant to the practitioner's field and knowledge? Notwithstanding that AUPs and related findings need to be capable of being described objectively, understanding why the practitioner is being asked to perform them, and to issue a report with which they are associated, is relevant in determining whether the engagement has a rational purpose. We recommend the engagement acceptance and continuance requirements be strengthened to incorporate a more explicit consideration of whether the engagement has a rational purpose. We provide a suggested approach in our response to question 6.

In many circumstances, we believe it is appropriate to restrict the distribution or use of the report. Where the report is intended to be bespoke and for management's purposes, third-party distribution would generally not be considered appropriate, as the engagement is not designed with a third party in mind. However, we agree that an outright prohibition on distribution or use to parties other than those who have agreed to the procedures is unduly restrictive.

We believe the standard would best address these considerations by requiring restriction on distribution or use of the report, unless prohibited by law or regulation from doing so, or as otherwise agreed in the terms of the engagement. In doing so, we believe it is useful for the standard to encourage more proactive dialogue between the practitioner and the engaging party at the outset of the engagement regarding whether distribution or use of the report beyond the engaging party is appropriate in the circumstances of the engagement and to incorporate any such proposed third-party distribution into the terms of the engagement. We provide further details in our response to question 8.

Other changes

Our views on the remainder of the proposed changes, which we support, are described in Appendix 1 in our responses to the questions posed in the explanatory memorandum.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Diana Hillier, at diana.hillier@pwc.com, or me, at james.chalmers@pwc.com.



Yours sincerely,

A handwritten signature in black ink that reads "James Chalmers". The signature is written in a cursive style with a large, prominent initial "J".

James Chalmers
Global Assurance Leader

Appendix 1 - Responses to specific questions

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

Subject to our comments in response to the questions hereafter, we believe the proposed revisions represent an appropriate response to the public interest issues identified in relation to the conduct of an agreed-upon procedures (AUP) engagement.

AUP engagements represent an important service for many stakeholders globally. Several national standard setters in a number of jurisdictions had recognised that the extant global standard was out of date and revised their own standards. Revision of the IAASB standard is therefore timely and in the public interest in supporting global consistency.

We welcome the clarification to make explicit that the standard may be applied to both financial and non-financial subject-matters. The proposed standard has also been appropriately drafted and modernised in order to conform with Clarity drafting principles.

One of the most challenging public interest issues associated with AUP engagements is consistency in users' understanding of the nature and purpose of such engagements – making clear the distinction between AUP and assurance engagements. The changes relating to terminology used to describe AUPs are useful in that regard.

The revised standard will provide a useful basis for further meaningful discussion with stakeholders about the nature and value of an AUP engagement, including what it is not designed to achieve. We encourage the IAASB to use the revision as an opportunity to undertake proactive outreach to key stakeholders, in particular those commissioning and using AUP reports (such as funding or lending organisations), to promote the changes and to reinforce understanding of the nature and purpose of these important engagements.

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 judgement plays in an AUP engagement?

We agree that professional judgement is required in undertaking an AUP engagement and broadly support the proposed revisions to address this topic within the standard, including the specific examples used to illustrate where judgement is applied.

In performing AUP, a practitioner complies with the fundamental principles as set out in the Code of Ethics (or equivalent requirements that are as robust), including objectivity and professional competence and due care. In applying professional competence and due care, the practitioner does not, however, apply significant professional judgement, as the procedures agreed with the engaging party need to be objective and result in objective factual findings.

However, we support the clarification within the proposed standard of the role that professional judgement plays in accepting and conducting an AUP engagement.

The need to make decisions that require professional judgement in performing the procedures is likely

to be limited. As the practitioner reports findings only, we agree with the proposal in the ED that it is important that the AUP and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretation. Otherwise, there is a risk that users might draw unwarranted assurance. This will restrict the nature of procedures to those where decisions involving professional judgement in performing them, or in how the findings are to be reported, are limited.

We support paragraph A16 of the application material that recognises the fact that there may be limited judgement necessary in some circumstances. However, we believe the language used may lack sufficient clarity, with the potential for differing interpretations as to how, and the extent to which, the practitioner may apply professional judgement in performing the AUP. We believe a final sentence could be added that would more directly explain that a procedure that requires the exercise of more than a limited amount of professional judgement in its performance, or in analysing the results thereof, is unlikely to meet the engagement acceptance and continuance pre-conditions.

Perhaps the most common application of professional judgement by practitioners is in assisting in the design of the procedures performed. Users may not know what type of procedures can be performed or nature of findings that can be reported. This may involve the practitioner working with management or those charged with governance to help them design appropriate procedures that meet their individual needs, or circumstances in which practitioners may work with a regulator or funding agency to assist in developing specific procedures to meet a regulatory requirement that are then used across a population of entities. We believe this important aspect of the practitioner's role could be better reflected in the application material, for example following on from paragraph A20. Such guidance could usefully cross-refer to paragraph 22 (b) to act as a reminder that, notwithstanding any assistance by the practitioner in designing the procedures to be performed, it remains critical that the engaging party ultimately takes responsibility for acknowledging the appropriateness of the procedures. We therefore support the engagement acceptance precondition, in paragraph 20 (a), which directly addresses the need for this acknowledgment from the engaging party.

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 consider the proposals to be a pragmatic and transparent solution, recognising the inherent challenges in addressing ethical considerations that are ultimately a matter for the IESBA to consider in the Code of Ethics.

Building trust in the services provided by auditors and other practitioners providing other assurance and related services is a shared objective of the IAASB and firms alike. The practitioner's ability to perform the engagement with an objective state of mind is integral to building trust. In many AUP engagements, being independent, and being perceived to be independent, is in the public interest, for example, in relation to AUP engagements to report to a regulator on the use of public funds. In other cases, such as a private report to management, management or those charged with governance can more readily assess the need for the practitioner to be independent based on their understanding of the engagement circumstances.



We agree that it is not within the IAASB's mandate to require the practitioner to be independent as that is a matter for the IESBA to consider within the Code of Ethics. To avoid any ambiguity on the circumstances when independence would be appropriate and in the public interest in an AUP engagement, we recommend the IAASB ask the IESBA to articulate its views on engagement circumstances when the practitioner should be required to be independent, taking into account the nature of the AUP engagement and the intended users of the AUP report.

In addition, we recommend that the standard direct practitioners to consider the public interest in accepting and agreeing the terms of the engagement by considering whether, in the circumstances of the engagement, independence would be appropriate.

Absent any direct legal or ethical requirement, the practitioner and the engaging parties can agree, within the terms of the engagement, whether independence is a necessary precondition.

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.

With respect to the required statement in the AUP report, we agree in principle. We strongly support the inclusion of a statement regarding the practitioner's independence status in all cases, not just when the practitioner is not, or is not required to be, independent. We also agree that, in the circumstances when the practitioner is not required to be independent, there would be no reasonable grounds on which to require the practitioner to make a formal assessment of their independence for the purposes of making a positive statement as to their independence.

We have a number of observations on the proposed statement.

Paragraphs 22 (d) and 30 (f) (i) do not provide any reference point against which the practitioner would assess independence, when this is required for reasons other than law or regulation, such as the terms of the engagement or other reasons. The use of the term "and the basis therefor" appears vague – the basis should not be entirely at the discretion of the practitioner. We recommend that the requirement could be enhanced by drawing on the language used in ISA 700 (Revised), as shown below:

- (i) *if required to be independent by relevant ethical requirements, terms of the engagement, or other reasons, a statement that the practitioner is independent and the basis therefor. The statement shall identify the jurisdiction of origin of the relevant ethical requirements, or refer to Part 4B the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants;*

In the circumstances per paragraph 30 (f) (ii) b, when the practitioner is not required to be independent in accordance with any law or regulation but has concluded they are independent (either as the auditor of the entity or based on an assessment of the principles within the IESBA Code of Ethics, such as Part 4B), we believe it would be useful to provide an explanation and illustration of how



the basis for the practitioner's statement may be articulated. See comments on paragraph 30 (f) (i) above. This may help avoid confusion and the risk of inconsistent descriptions arising.

When the practitioner is not independent, we support the guidance in paragraph A42 addressing consideration of including within the report an explanation as to why the practitioner is not independent.

AUP engagement contracts can often be entered into with multiple engaging parties. For example, a funding bank and entity in receipt of such funding, or a government granting authority and the entity in receipt of such grant. We recommend that the proposed standard provide clarity with respect to independence considerations and the proposed statement within the AUP report as to which entity(ies) this specifically applies when there are multiple "engaging parties". For example, we do not believe the intent is to address the practitioner's independence of any third-party engaging party such as a bank.

See also our response to question 3 regarding a precondition for the practitioner to be independent.

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?

Yes. We understand the reason for the inclusion of paragraph A11. To provide some context, we suggest it may be helpful to add "pursuant to local law, regulation or practice".

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, subject to our comments that follow. As noted in our response to question 2, it is important that the engaging party accepts responsibility for acknowledging the appropriateness of the planned procedures. We also welcome the additional guidance on terminology intended to drive clear and specific procedures and findings that are not open to varying interpretation. As explained in our response to question 1, this is one of the significant public interest challenges with AUP engagements performed today.

Recognising the expanded scope of the proposed standard to include non-financial subject-matters, we suggest that an additional acceptance condition may be appropriate that addresses the practitioner's competence to perform the procedures. Specifically, such a condition could address any need for a practitioner's expert. We believe the IAASB can draw upon language similar to that in proposed ISA 220 (Revised) i.e., that the practitioner, and any practitioner's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to perform the procedures.

Also, as explained in our cover letter, we recommend that the engagement acceptance requirements also incorporate consideration of whether the engagement has a rational purpose as well as the rationale for the practitioner's requested involvement. The information on which procedures are to be performed, and the procedures themselves, should serve the needs of the identified intended users. Such consideration would also extend to the completeness of the intended procedures in addressing



the interests/needs of the intended users.

In addition, we believe there should be a clear rationale for the practitioner's involvement, and hence association, with the engagement. There is a risk that the practitioner may be asked to perform procedures that are not related to the practitioner's expertise and, although capable of performing them, the practitioner's involvement may be inadvertently interpreted as a form of advocacy or endorsement without the practitioner fully appreciating the possible consequences. That would not be, in our view, in the public interest. We recommend that paragraph 21 be amended as follows, with additional application material that explains the matters set out herein (and which could also draw upon relevant content from paragraph A56 of ISAE 3000 (Revised), for example, associating the practitioner's name with the underlying subject-matter in an inappropriate manner):

“Before accepting an agreed-upon procedures engagement, the practitioner shall obtain an understanding of the purpose of the engagement. The practitioner shall not accept the engagement if the practitioner is aware of any facts or circumstances suggesting that the engagement does not have a rational purpose or that the procedures the practitioner is being asked to perform are inappropriate for the purpose of the agreed-upon procedures engagement.”

We also believe that, as part of the engagement acceptance preconditions, a relevant consideration for the practitioner is whether the non-financial information is measurable, thereby enabling procedures and findings that are capable of being objectively described. We suggest this be included as additional application material.

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?

Yes. The proposals, based on the underlying principles when using an expert in an audit, are pragmatic and reasonable. We do, however, recognise the perception challenge. Requiring expertise can imply a need for significant judgement. It is important, therefore, that the principle that the procedures to be performed, and related findings, should not require significant judgement and that they are capable of being described objectively be reinforced when using an expert. The expert applies their competence and capabilities in performing the procedures, but the reason for their involvement is not, and cannot be, because the subject-matter requires subjective interpretation. We believe it may also be useful to reinforce in the application material that, when expertise is required, the engaging party remains responsible for acknowledging the appropriateness of the procedures.

We also support the proposed changes to the AUP report with respect to the practitioner's overall responsibility for the procedures to be performed.

Acknowledging the risk of perception issues, we believe that the examples in paragraph A35, in particular those relating to engineering and legal aspects of a contract, could be seen as implying a need for significant judgement. We suggest it may be preferable to delete or replace these examples. We also believe that illustration 2 in Appendix 2 to the proposed standard could include a more useful example. It is unclear why the procedure as described in the illustration would require an external expert. Using the example of a chemist analysing toxin levels, from paragraph A35, may be a better example.



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?

In many circumstances, we believe it is appropriate to restrict the distribution or use of the report.

Where the report is intended to be bespoke and for management's purposes, third-party distribution would generally not be considered appropriate, as the engagement is not designed with a third party in mind.

However, in practice, it is not uncommon that at least certain AUP reports are distributed to regulators and others. In these circumstances, it is not always clear which parties need to "agree" beyond those who are the signatory to the engagement letter. Furthermore, depending on the engagement circumstances, there may not be a significant risk of the nature of the engagement or report being misinterpreted by those other users – for example, engagements designed by a regulator for which there is an understood framework.

For these reasons, we agree that an outright prohibition on distribution or use to parties other than those who have agreed to the procedures is unduly restrictive. We further believe that consideration of the potential need to distribute the report to others is an important concept to address within the requirements.

We believe the standard would best address these considerations by requiring restriction on distribution or use, unless prohibited by law or regulation from doing so, or as otherwise agreed in the terms of the engagement.

In doing so, we believe it is useful for the standard to encourage more proactive dialogue between the practitioner and the engaging party at the outset of the engagement regarding distribution or use of the report. Paragraph 22 (c) requires that the engagement terms acknowledge the purpose of the engagement and the intended users of the report, as identified by the engaging party. We feel that this requirement could be expanded in order to incorporate consideration of whether, in light of the purpose of the engagement and the intended users, distribution or use of the report beyond the engaging party, is appropriate, and to agree such distribution or use with the engaging party in the terms of the engagement. Additional guidance could be provided to illustrate when restrictions may be important from a public interest perspective - i.e., when the procedures are bespoke and designed to meet a particular information need of the engaging party and could be misinterpreted by others and when extending distribution or use may therefore not be appropriate. Ultimately, the decision on what to agree in the terms of the engagement is a practitioner's risk management decision.

Further clarification around how classes or groups of users are to be considered by the practitioner may also be helpful. Currently this is only acknowledged within the defined term of "intended users". For example, the standard could usefully recognise that a regulator or other representative may exist that specify procedures addressing the needs of a class of users, or the industry they represent. We note that the Australian National Standard Setter's local revision of ISRS 4400 addresses consideration of a group of users, and suggest this content be taken in account in finalising the revised standard.



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 proposed requirements in relation to the practitioner's report. We have no substantive comments on the proposed structure and content of the AUP report, noting that this is often prescribed in law or regulation resulting in more bespoke reports.

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.**

We support the proposed implementation period of 18-24 months after approval of the final standard, with early adoption permitted, and the proposed language used to describe the effective date - "*...engagements for which the terms of engagement are agreed on or after...*"

With respect to consideration of a shorter implementation period, we believe permitting early adoption remains the most appropriate mechanism, recognising the potential spectrum of firm and jurisdictional implementation efforts. However, assuming final approval by the Board in December 2019 and approval by the PIOB in March 2020, we believe the earliest reasonable effective date that could be proposed would be for engagements for which terms are agreed on or after 15 March 2021. While do not believe the changes represent a substantial implementation challenge, we acknowledge the need for sufficient time for translations and revisions to firms' methodologies and templates.