

Prof. Arnold Schilder  
Chairman  
IAASB  
529 5th Avenue  
10017, New York

Submitted via website

Brussels, 15 March 2019

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

Dear Sir,

Accountancy Europe is pleased to respond to the IAASB Exposure Draft - Proposed International Standard on Related Services 4400 (Revised) Agreed-Upon Procedures Engagements (ED-4400).

We very much support the IAASB's effort in this project. Agreed-upon procedure (AUP) engagements are being used broadly and for the attention of different users. This type of project also helps the accountancy profession better explain and promote the added value of non-assurance services.

As noted in the explanatory memorandum to ED-4400, AUP services are very much used to respond to stakeholders' needs by reporting on funding and grants received. They are very relevant in the European context and also in many European countries in the Small and Medium Entity (SME) context. Due to this wide use, it is therefore important to have clarity on the use and scope of AUP engagements.

The way in which regulators and legislators use AUP engagements is sometimes inappropriate, using assurance-type of wording and this causes confusion and misinterpretation. To fully address the public interest issues linked to this, it is important to explain better the differences between assurance engagements and AUP and we think that the standard may need to be accompanied with a communication piece on this. Great initiatives have already been carried out by the SMP Committee, but it may need reinforcement – inside or outside the standard.

We agree that professional judgment has a role to play in an AUP engagement and that this role entails more than performing the AUP engagement in accordance with the ethical fundamental principle of professional competence and due care. There is a spectrum in the use of professional judgement in AUP engagements that varies in each situation.

In Europe, we know that a number of countries have developed their own standards to cope with the fact that ISRS 4400 was outdated. As a result, it may have pushed the practice of the standards in different directions. We expect the IAASB to be aware of such cases and to have considered these different situations. We welcome that ED-4400 allows for flexibility and is applicable to different scenarios - to the extent reasonable.

We broadly support the way the IAASB has dealt with the independence of the practitioner involved in an AUP engagement, but we have reservations on the requirement to disclose in the report when the practitioner is not independent. In our view, clarification that the AUP engagement is not subject to an independence requirement is sufficient.



The fact that the engaging party may vary is noted in paragraph A9. Further explanation on practical implications or illustrative examples would be helpful. For example, if a regulator is the engaging party how will this impact the practitioner in terms of access to relevant information (e.g., does there need to be more than one party to the engagement terms, or should the practitioner seek specific representations from management?).

As stated in ISQC 1, ISQC 1 is applicable to ISRS 4400. The IAASB may need to emphasise this aspect when undertaking outreach. This is yet another reason for finding the right balance in making ISQM 1 scalable.

There is a requirement to include in the AUP report a reference to ISQC1 and to the independence requirements where applicable, but there is no information required regarding the practitioner's ethical behaviour. We think that it would be appropriate for the AUP report to similarly inform readers that the practitioner adheres to the Code of Ethics and/or name the jurisdiction of the ethical requirements applicable to the engagement.

Paragraph 45 of the explanatory memorandum explains that written representations are unnecessary and thus not part of the requirements under ISRS 4400. However, the IAASB has included in paragraph 27 a requirement to consider whether it is necessary to request written representations from the engaging party. There is, however, no further rationale or justification provided to guide the practitioner as to whether it is necessary to consider or not. Including this requirement in this section could therefore raise expectations and we suggest that mentioning this possibility in the application material as currently included in paragraph A34 is sufficient.

For further information on this letter, please contact Noémi Robert on +32(0)28933380 or via email at [noemi@accountancyeurope.eu](mailto:noemi@accountancyeurope.eu) or Hilde Blomme on +32(0)28933377 or via email at [hilde@accountancyeurope.eu](mailto:hilde@accountancyeurope.eu).

Sincerely,

Olivier Boutellis-Taft

Chief Executive



## APPENDIX

---

### Question 1

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

In Europe, we know that a lot of countries have developed their own standards to cope with the fact that ISRS 4400 was outdated. It may have pushed the practical application of the standard in different directions. We expect the IAASB to be aware of such cases, to have considered these different situations and to allow – to the extent reasonable – for flexibility at local level.

To fully address the public interest issues, it is important to explain better the differences between assurance engagements and AUP and we think that the standard may need to be accompanied with a communication piece on this. Great initiatives have already been carried out by the SMP Committee, but it may need reinforcement – inside or outside the standard.

With the same objective in mind to address public interest issues, it may be worth being clearer on the role and responsibilities of all parties involved, i.e. describing more prominently the engaging party and giving an example of the intended user in the application material.

---

### Question 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?*

As stated above, a lot of countries have developed their own standards to cope with the fact that ISRS 4400 was outdated. The professional judgement aspect as included in ED-4400 may give rise to some challenges in these countries to reconcile how they have moved on at national level with how the IAASB has decided to move forward in this ED. We welcome that ED-4400 allows for flexibility and is applicable to different scenarios - to the extent reasonable.

The last sentence of paragraph A16 is confusing and may lead to misunderstanding. We suggest deleting it.

As per its definition, professional judgment relates to making informed decisions about alternative courses of action. In AUP engagements, professional judgment applies, but its role differs from that in an assurance engagement and this should be very clear to our stakeholders. We think additional wording in paragraph 18 may help clarify that using professional judgement to agree the exact nature of the AUP engagement is key to ensure that the AUP is properly planned and can be executed appropriately.

Additionally, in paragraph 20, while emphasising on the fact that strict language should be used, that AUP should be as specific as possible in terms of nature, timing and extent such that no or minimised alternative courses of action exist, it is important to point out that ISRS 4400 does not generally cover the interpretation of the findings nor any recommendations. Practitioners may perform these additional services in addition, but normally not as part of an AUP.

Nevertheless, the majority of our members recognise that there may, in some instances, be a need for professional judgement to be applied in performing many specific aspects of the AUP engagement (as explained in paragraph 15) and accept the need for some sort of flexibility in the international standard.



That being said, the statement in paragraph A10 “different practitioners performing the same procedures are expected to arrive at the same results” is key to an understanding that the standard relates solely to factual results, which means that professional judgement should normally not be applicable to the actual performance of the agreed-upon procedures. Given the relevance of this statement, we suggest it be more prominent - possibly reflected within the definition of the term “findings”.

---

### 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?*

We agree. Independence is not a requirement when performing an AUP, only objectivity is required. Any specific intended users could take actions to evaluate the objectivity of the practitioner and also add independence to be a part of the engagement if this is considered necessary.

---

### 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.*

Independence is such a hot issue for the moment, in the context of the auditing profession, that it is important to address it in a transparent manner. We agree that specific clarification is useful when the AUP engagement is not subject to an independence requirement. We also agree that the AUP report must state that the practitioner has fulfilled relevant independence criteria (together with the basis for determining independence, where applicable) when a practitioner carrying out an AUP engagement is required to be independent.

We further agree that, where applicable, the AUP report may state that the practitioner has fulfilled relevant independence criteria (together with the basis for determining independence, where applicable), even when the practitioner is not required to be independent, and note that this remains optional, as the alternative is to include a specific clarification that the AUP engagement is not subject to an independence requirement.

However, we question the requirement to report the additional confirmation that the practitioner is not independent, since this can only be applicable where this fact has been established and not where independence has not been explored. In our view clarification that the AUP engagement is not subject to an independence requirement is sufficient. If this is pursued though, in practice, the IAASB will have to assess whether this disclosure gives rise to unintended consequences, such as the fact that a report stating that the independence determination has not been made is seen as a lesser report. It will be important to monitor practice and exchange with other stakeholders on how this disclosure is perceived.

Additionally, it would be helpful to further explain to whom the independence requirements apply where there are multiple parties involved and tripartite engagement letters and that the practitioner should limit their independence determination towards the responsible party.



---

## 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?*

We support retaining the approach whereby practitioners report on the factual results from performing an AUP engagement differentiating this from subjective findings.

We note the concerns the IAASB has expressed in paragraph 34 of the Explanatory Memorandum regarding the potential for misleading terminology that would contribute to ongoing market confusion over what an AUP engagement entails. This is an issue encountered in practice, where AUP engagements are often described in contracts by persons that are not familiar with the IAASB pronouncements. It may also be helpful for the application material in A23 to point practitioners to additional words and phrases that ought to be avoided in a report because they indicate that the findings are not factual, like “in our view”, “from our perspective”, or “we take the position that”.

In this context, we are concerned that changing the term used in extant ISRS 4400 from “factual findings” to “findings” (notwithstanding that the proposed definition of “findings” clarifies that these are indeed factual in nature) may also cause confusion in this area, as it may be perceived as indicative of a change in substance, which is not the intention of the IAASB.

We do not agree with the IAASB’s logic for making this change (see paragraph 27 of the explanatory memorandum) as ISRS 4400 continues to relate solely to factual findings and thus the proposed change lacks justification. According to ISRS 4400 (Revised), there can be no findings that are not factual results, so we do not think there is any potential confusion within the standard. Consequently, it would be better if ISRS 4400 (Revised) would continue referring to “factual findings” consistently; failing this, the requirements for the practitioner’s report should require the report to clarify that the term “findings” means “factual results”.

---

## 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?*

The requirements and application material regarding engagement acceptance and continuance very much help to reflect that there may be cases where agreed-upon-procedure engagements are not appropriate. Following these requirements going forward, the practitioner will make sure that they understand what is asked from them and if the engagement makes sense.

---

## 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?*

The proposed requirements and application material on the use of a practitioner’s expert are appropriate and tries to mirror the approach included in the ISAs. The wording used could be adapted to reflect the one used in the ISAs. Nevertheless, ISRS 4400 is not yet as clear as it could be as to situations where a practitioner has recourse to an expert.

In terms of timing for instance, the requirements of paragraph 28(c) should be proactive rather than retroactive. The practitioner must instruct the expert appropriately as to their respective roles in advance of any AUP being performed and later determine that this has indeed been achieved.



In terms of clarifying responsibilities, as per paragraphs 28(b) and 31, the practitioner may only use the work of an expert to support the practitioner's own performance of the AUP. This needs to be clear, and thus the wording of para. 28(d): "...the findings reported by the expert..." is misleading, because it appears to imply that an expert has carried out one or more of the AUP. We suggest this phrase be revised in finalising para. 28(d).

Paragraph 28(b) requires an advance determination of the practitioner's ability to be sufficiently involved in the work of the expert. In our view, this is a prerequisite for the practitioner to accept the engagement, which we suggest would be more appropriately dealt with in the section on engagement acceptance and continuance. In paragraph 28, before issuing the AUP report, the practitioner should then be required to determine that the level of involvement actually achieved in respect of the performance of each AUP giving rise to the relevant finding(s) was indeed sufficient to warrant taking responsibility for the finding(s) included in the AUP report.

Where special technical competence is required, the AUP report would need to describe who performed the procedures and note the special technical competence required. ISRS 4400 would further need to require the AUP report clarify the respective responsibilities of the practitioner and the expert.

Additionally, referring to the first part of the definition of a practitioner's expert as included in paragraph 13(i), we do not think that expertise in assurance engagements should be required for a practitioner to perform an agreed-upon procedure engagement. We assume that the IAASB means that an expert will bring expertise in a field that the practitioner would not be expected to have as a professional accountant. We suggest the definition of a practitioner's expert be amended accordingly.

---

#### 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?*

Conceptually, the AUP report should be restricted to the intended users. Nevertheless, we know from practice that this is not feasible. When working with the extant standard, the report was already made public in many instances, even if not authorized.

We agree with the potential consequences of making it available as included in paragraph A43 of the application material, explaining that in some countries you may restrict the distribution, in others, the use.

---

#### 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?*

We would support an increased use of headings and sub-headings to help improve the readability of the report. In addition, an example of a report where the intended user would be different from the engaging party would prove to be very useful in our European context.

Please refer to other comments elsewhere about clarifications that may be needed in the report.





---

## 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—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 have not identified any translation issues to date.

We agree with the effective date, but it will be important to make stakeholders aware and plan a broad outreach campaign. Counterparties should be fully aware of the changes.

### **ABOUT ACCOUNTANCY EUROPE**

Accountancy Europe unites 51 professional organisations from 36 countries that represent close to **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18)