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Submitted via website

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

Dear Sir,

Accountancy Europe is pleased to provide you with its comments on the IAASB's Discussion Paper, Exploring the Demand for Agreed-Upon Procedures (AUP) Engagements and Other Services, and the Implications for the IAASB's International Standards.

- (1) We support the IAASB's decision to explore this topic. AUP engagements are now being used broadly and for the attention of different users, and the profession needs to better explain and promote the added value of non-audit services.
- (2) As noted in the discussion paper, AUP are very much used for purposes such as funding and grants. They are relevant in the European context¹ and in certain countries in the Small and Medium Entity (SME) context. It is therefore important to have clarity on the use and scope of AUP engagements, and how the work done needs to "match" the reporting. The standard-setting response needs to be balanced to properly address stakeholders' needs.
- (3) 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. ISRS 4400 should therefore be flexible and applicable to different scenarios. We refer to our response to question 1.
- (4) Discussions with stakeholders strongly suggest that the ISRS 4400 should recognise the fact that agreeing the procedures to be performed and performing AUP engagements are separate activities, but that they may sometimes take place in parallel. In the case that procedures are agreed in advance the practitioner will perform the procedures without exercising professional judgement. In other cases, agreeing the procedures to be performed may be an iterative process that continues alongside performance. This means that in such circumstances, judgement may be used throughout to refine the agreement on procedures to be performed up to a late stage in the engagement.

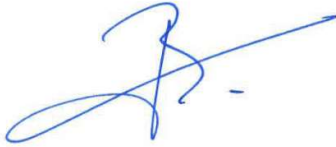
¹ Refer to Accountancy Europe's [information paper](#) on 'Horizon 2020 Framework Programme: Certification of EU funds' as an example.

- (5) The IAASB should draw upon the brochure developed by the IFAC SMP Committee and clarify to other stakeholders what AUP services bring. AUP is sometimes mistakenly seen by other stakeholders as an assurance engagement. Equally, there is confusion by the intended users and the regulators about the level of assurance provided by each engagement and this also merits clarification. This is also why a discussion about the purpose and scope of the engagement for the user needs to take place.
- (6) Moreover, we do not agree with the existing approach in ISRS 4400 in requiring a statement in the report of factual findings when the practitioner is not independent given that the standard does not require being independent. However, it is common practice in some jurisdictions to comment on independence in AUP reports, even though independence is not a requirement of the standard and this should not be precluded by any changes to the ISRS 4400. This is particularly important when some third parties specifically request AUP to be performed by an independent practitioner.
- (7) It is important to have clear and unambiguous terminology which is not misleading. We already had a long history of discussions with other stakeholders on this matter. You may refer to our letter to the European Commission (EC) on the role of the auditor in the certification of Horizon 2020 EC grants.
- (8) In addition, the current technical jargon included in the standard is not suitable for use in practice by many non-technicians using the standard. The IAASB is invited to reflect on the need to have more flexibility in the use of the standard and ensure that it can be applicable to different scenarios as it is now also more widely used. One recent example of the wide use of AUP is the Single Resolution Board (SRB) that asks financial institutions to provide either a management sign-off or an AUP Factual Findings report².
- (9) Furthermore, it is useful to clarify that the scope of ISRS 4400 includes non-financial information (NFI). We also strongly agree that ISRS 4400 should address the need for practitioners to consider whether they have the competence to perform AUP on NFI. This type of information could be highly technical or industry-specific. While the profession is well equipped with relevant skill sets and experience to provide AUP engagements, specialist expertise may be needed on certain subject matters. The use of experts in AUP engagements is probably not commonplace, but we agree that it would be helpful to address this in ISRS 4400.
- (10) It should be possible to provide the AUP report to a party that is not a signatory to the engagement letter when the procedures to be performed in an AUP engagement are set out in law or regulation or are described in the terms and conditions of the AUP engagement. Requiring the AUP report to include a statement that the report is intended solely for the specific users, subject to law or regulation of the relevant jurisdiction or by express agreement between the parties, is the right trade-off between the two other approaches described by the IAASB.
- (11) Moreover, non-authoritative guidance may be useful to address multi-scope engagements. However, this should be done upon completion of the revised ISRS 4400.

²<https://www.accountancyeurope.eu/publications/fee-submits-a-letter-to-the-european-commission-regarding-horizon-2020/>

For further information on this letter, please contact Eleni Ashioti on +32(0)28933387 or via email at elenia@accountancyeurope.eu or Noémi Robert on +32(0)28933380 or via email at noemi@accountancyeurope.eu.

Sincerely,



Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 50 professional organisations from 37 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).

ANNEX 1

THE ROLE OF PROFESSIONAL JUDGMENT AND PROFESSIONAL SCEPTICISM IN AN AUP ENGAGEMENT

Question 1

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?

- (12) Professional judgment has a role to play in an AUP engagement particularly in compliance with, but not limited to, the ethical fundamental principle of professional competence and due care.
- (13) Agreeing on the procedures to be performed is not always a discrete process in practice. There is a spectrum in the use of professional judgement. At one end of the spectrum, in many simple AUP engagements, where the scope of the AUP engagement has been clearly defined and included in the engagement terms (e.g., as is often the case in relation to work on grant expenditure), professional judgement does not play a role in performing the procedures or in interpreting the factual findings.
- (14) At the other end of the spectrum, in more complex engagements, the procedures may need to be adapted during the AUP engagement and, there, the practitioner will need to exercise professional judgement when agreeing with the client the refinement of the procedures to be performed. Agreeing the procedures to be performed may be an iterative process that continues alongside performance. In such circumstances, judgement may be used to refine the agreement on procedures to be performed up to a late stage in the engagement. For example, it may be agreed initially that a sample size of x is required, but that as a result of preliminary enquiries, it becomes clear that a sample size of y would be more appropriate and this is what the client and practitioner agree. The boundaries of agreeing the procedures to be performed are in practice very wide.
- (15) Inevitably, in some cases, interpretations of the practitioner could be necessary in making a statement on certain aspects or parts of the outcomes. The practitioner may use his/her own expertise or reference framework (professional judgment) in addition to the agreed principles and criteria. This will be part of the value added to the engagement as a practitioner.
- (16) The current definition of professional scepticism in ISA 200 and ISAE 3000 is designed for assurance engagements, in that it involves being alert to conditions indicating possible misstatement and a critical assessment of evidence, for which the exercise of professional judgment is necessary. This is not the case in the performance of procedures in an AUP engagement. If the definition and general applicability of professional scepticism were to be changed through the project on professional scepticism, then the applicability of a different degree of professional scepticism or a critical mindset to AUP engagements would need reconsideration.

Question 2

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

- (17) There is a need to include requirements relating to professional judgement but we caution against the inclusion of a prescriptive requirement on professional judgement in the standard. It should be adaptable to the circumstances of the AUP engagement (reference to the spectrum as detailed in our response to question 1).

THE INDEPENDENCE OF THE PROFESSIONAL ACCOUNTANT

Question 3

What are your views regarding practitioner independence for AUP engagements? Would your views change if the AUP report is restricted to specific users?

- (18) We agree that the standard should not require the practitioner to be independent and for this reason we would not agree with requiring a statement in the report of factual findings where the practitioner is not independent.
- (19) In an AUP engagement, the practitioner should have the opportunity to discuss with intended users before the performance of the engagement starts. It is during this discussion that the practitioner should inform them that he/she is not independent.
- (20) However, it is common practice in some jurisdictions to comment on independence in AUP reports, even though independence is not a requirement of the standard and does not require it. This should not be precluded by any changes to the ISRS. This is particularly important when some third parties specifically request AUPs by an independent practitioner.
- (21) The concept of objectivity and independence varies depending on the service provided. The IAASB could elaborate in ISRS 4400 on the objectivity, which is important when delivering an AUP engagement. However, independence as included in sections 290 and 291 of the IESBA Code of Ethics³ relates to more targeted assurance engagements and should therefore not be required under ISRS 4400.
- (22) Our views will not change if the AUP report is restricted to specific users.

³ <https://www.ethicsboard.org/iesba-code>

TERMINOLOGY IN DESCRIBING PROCEDURES AND REPORTING FACTUAL FINDINGS IN AN AUP REPORT

Question 4

What are your views regarding a prohibition on unclear or misleading terminology with related guidance about what unclear or misleading terminology mean? Would your views change if the AUP report is restricted?

- (23) Terminology in ISRS 4400 should be clear, unambiguous and not misleading. The standard may also include guidance about what unclear or misleading terminology means. Our views would not change whether the AUP report is restricted or not.
- (24) In our response to the European Commission (EC) on the “Role of the auditor in Certification of Financial Statements and Methodology in Horizon 2020 (H2020) EC grants”⁴, we raised awareness about a number of examples of misleading terminology, such as the use of the term “review”, that could lead to practical issues and potential inconsistencies in the work performed by the practitioner, especially in the context of international professional standards.
- (25) In practice, though, this issue cannot be addressed by changes to the standard alone. It requires engaging with those who develop and request the procedures about the nature and scope of AUP engagements generally.
- (26) In addition, having overly strict guidance (or a ban on words) could lead to practitioners being prohibited from accepting certain engagements, with the result that the client would be unable to comply with the requirements imposed on them. Thus, the standard should include a requirement that when specific words are required by law, regulation or third-party contracts, the practitioner should seek to use more appropriate terminology by negotiation where appropriate, and if that fails, to define or describe those words in the AUP report so that their use is no longer unclear or misleading. Where this is not the case, we agree that ISRS 4400 should prohibit, in general, the use of unclear or misleading terminology and a small number of words - such as ‘review’, ‘audit’, or ‘assurance’, that would be unclear or misleading in all cases.
- (27) Terminology will impact the engagement terms, as well as the report wording. Any added guidance would need to address both.

⁴ https://www.accountancyeurope.eu/wp-content/uploads/Bellens_131202_Horizon_2020_FEE.pdf

AUP ENGAGEMENTS ON NON-FINANCIAL INFORMATION

Question 5

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?

- (28) It is useful to clarify that the scope of ISRS 4400 includes NFI. This is an area of increasing activity and it would be useful for practitioners to have more guidance here. According to the practice in our membership, the standard commonly used on NFI is ISAE 3000; however, we have information that ISRS 4400 is also used for NFI engagements in the UK⁵ and the Netherlands⁶. Where NFI reporting is relatively immature, the lack of suitable criteria and supporting evidence may mean that meaningful assurance is not achievable and so other related services such as AUP may be worth considering.
- (29) We strongly agree that ISRS 4400 should address the need for the engagement team, as a whole, to consider whether they have the overall competence to perform AUP on NFI, as opposed to having specific expertise in the field of the subject matter per se. This information could be highly technical or industry-specific.

Question 6

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

- (30) We have not identified any other matters that should be considered if the scope is clarified to include non-financial information.

USING THE WORK OF AN EXPERT

Question 7

Do you agree with the Working Group's views that ISRS 4400 should be enhanced, as explained above, for the use of experts in AUP engagements? Why or why not?

- (31) All AUP engagements are defined via discussions between the practitioner and the client. While the profession is well equipped with relevant skill sets and experience to provide AUP engagements, the practitioners, depending on the subject matter, may be less familiar with some of the specialised expertise linked to a particular subject matter. In some cases, specialist expertise may be needed on certain subject matters. The use of experts in AUP engagements is probably not commonplace, but we agree that it would be helpful to address this in ISRS 4400.
- (32) Paragraph 34 of the Discussion Paper should clarify that the AUP practitioner may need to exercise professional judgement in agreeing with the expert and the client the work to be performed within the boundaries of what the ISRS 4400 allows.

⁵ Examples in the UK include ICAEW Technical Release AAF 04/10 "Guidance for performing agreed-upon procedures engagements that address XBRL-tagged data included within financial statements prepared in iXBRL format" and AAF 01/07 Independent Accountants report on packaging waste

⁶ The Royal Netherlands Institute of Chartered Accountants (NBA) has developed a Dutch clarified Standard 4400N 'AUP Engagements' and has expanded the scope of Standard 4400N for non-financial information.

FORMAT OF THE AUP REPORT

Question 8

What are your views regarding the Working Group's suggestions for improvements to the illustrative AUP report? We would be particularly interested in receiving illustrative reports that you believe communicate factual findings well.

- (33) We suggest keeping the short-form AUP report while changing the presentation, i.e. present each procedure and corresponding finding together.
- (34) It will be also worth adding an appendix 3 with a longer form of an AUP report for engagements that have numerous procedures.
- (35) As mentioned in our response to question 4, it is important that the practitioner presents the results of an AUP engagement in a clear and unambiguous way which is not misleading.
- (36) We have identified one example from the UK which illustrates reports that communicate findings well. In the Travel Industry, the UK regulator, CAA, requires ATOL Reporting Accountants to submit two reports on a travel company's compliance with their regulations. One of these requires a 'fairly presents' opinion, the other is an AUP factual findings report⁷.

AUP REPORT RESTRICTIONS – TO WHOM THE AUP REPORT SHOULD BE RESTRICTED

Question 9

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?

- (37) It should be possible to provide the AUP report to a party that is not a signatory to the engagement letter when the procedures to be performed in an AUP engagement are set out in law or regulation or are clearly described in the terms and conditions of the AUP engagement.
- (38) Restricting the AUP report to signatories to the AUP engagement letter would in many cases defeat the purpose of carrying out the AUP engagement, i.e. in the case where the parties that are party to the terms of the engagement require such an engagement for regulatory purposes.
- (39) Also, there could be jurisdictional requirements for which a practitioner will be asked to prepare a report that will be distributed to a number of intended users therefore this kind of flexibility is needed. However, it is worth pointing out that often the practitioner will not be aware who the intended users are and whether they have the necessary knowledge to understand the report and to use it in a suitable manner. Therefore, unambiguity is essential.

⁷ For the Factual Findings Report CAA refer to <https://publicapps.caa.co.uk/modalapplication.aspx?catid=1&pagetype=65&appid=11&mode=form&id=7285>

AUP REPORT RESTRICTIONS – THREE POSSIBLE APPROACHES TO RESTRICTING THE AUP REPORT

Question 10

In your view, which of the three approaches described in paragraph 44 is the most appropriate (and which ones are not appropriate)? Please explain

- (40) The third approach the right trade-off between the first and the second approach. It is a flexible approach considering the restrictions that might be imposed by laws and regulations in each jurisdiction.

Question 11

Are there any other approaches that the Working Group should consider?

- (41) We have not identified any other approach that the Working Group should consider.

RECOMMENDATIONS MADE IN CONJUNCTION WITH AUP ENGAGEMENTS

Question 12

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?

- (42) We agree with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings. This type of report addresses a different audience. With the provision of recommendations, the practitioner is offering an additional type of work. As noted in paragraph 47, recommendations should be either viewed as a by-product of the AUP engagement or a multi-scope engagement.

OTHER ISSUES RELATING TO ISRS 4400

Question 13

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.

- (43) The areas included in the IAASB's discussion paper are the most important ones to clarify the value and limitations of an AUP engagement.
- (44) The IAASB should clarify the difference between the various services offered given that, for example, AUP is sometimes mistakenly seen as an assurance engagement. A clear introductory section in the standard is needed, explaining that AUP performed under ISRS 4400 are not assurance engagements and therefore should not be seen as such. The reference to ISAs in paragraph two of the introduction section in ISRS 4400 and the wording "procedures of an audit nature" should be deleted. The confusion extends to practitioners as well as clients. Equally, there is confusion about the level of assurance provided by each engagement and this merits clarification as well.
- (45) ISRS 4400 is silent on the role of the practitioner if he/she becomes aware of a suspected fraud or illegal act. While the professional is not asked to assess whether the procedures agreed upon are adequate for the engagement, the practitioners should be alert to this kind of risk and cannot ignore cases where the context in which they are being asked to do something, or what they are being asked to do, is inappropriate. Practitioners should be constantly alert to the requirement not to be associated with misleading information when agreeing to perform an AUP engagement, and while performing the engagement. We also refer to our response to question 1 in this context.
- (46) The need to remain alert to potential risks should be better articulated in the standard, potentially in the objective section. The risk of potential misuse of the report may need to be pointed out as well.

MULTI-SCOPE ENGAGEMENTS

Question 14

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

- (47) Non-authoritative guidance would be useful to address multi-scope engagements. However, this should be done upon completion of the revised ISRS 4400. Otherwise any non-authoritative guidance developed at this stage should be a 'living document' to reflect this project's conclusions.
- (48) Engagement performance is generally not an issue, whereas form of reporting is often an issue. Transparency for the readers of the report as to the nature of the work done is essential.

Question 15

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

- (49) We agree with the Working Group's view that it should address issues within AUP engagements before it addresses multi-scope engagements.

General Question

Suggestions regarding the nature of guidance on multi-scope engagements you think would be helpful and any examples of multi-scope engagements of which you are aware will be welcome and will help to inform further deliberations.

- (50) As mentioned above, an example of multi-scope engagement is an engagement including some AUP and some work requiring audit-type procedures and findings as opposed to "factual findings". The IAASB could also help mitigate the gap between what regulators/government bodies think is AUP as opposed to assurance engagements where a more extensive exercise of professional judgement is required.