



**INTERNATIONAL AUDITING AND ASSURANCE STANDARDS  
BOARD (IAASB) DISCUSSION PAPER: EXPLORING THE  
DEMAND FOR AGREED-UPON-PROCEDURES ENGAGEMENTS  
AND OTHER SERVICES, AND THE IMPLICATIONS FOR THE  
IAASB'S INTERNATIONAL STANDARDS**

RESPONSE FROM ICAS TO THE IAASB

24 March 2017

## Background

ICAS is a professional body for more than 21,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business; many leading some of the UK's and the world's great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854.

## General comments

We welcome the IAASB's decision to initiate a discussion exploring the demand for Agreed Upon Procedures (AUP) engagements and other services, and the implications for the IAASB's International Standards. There is a need for greater clarification on the value and limitations of AUP engagements which are currently being used by a variety of different users for a variety of purposes.

As stated in the discussion paper, AUP are frequently used for purposes such as funding and grants and often by small and medium-sized entities. Therefore, we believe that it is essential the revised standard provides sufficient clarity on the use and scope of AUP engagements to ensure that the work effort involved matches the reporting expectations of users.

We also believe that it is important for the standard to contain clear and unambiguous terminology which is not misleading and does not create the misconception that any form of assurance is being provided to the user of an AUP report. Therefore, the inclusion of words such as assurance, review and audit within International Standard on Related Services (ISRS) 4400 should be avoided.

Our responses to the specific questions in the discussion paper are detailed below.

## Specific questions

### **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?*

### **Response 1**

We believe that the role of professional judgement in an AUP engagement will vary depending upon the engagement. In some scenarios, management is well-informed and the knowledge and insight into the information subject to the AUP engagement rests with them. In these cases, the scope of the AUP can be agreed at the engagement commencement stage and there will be little, if any, need for subjective decisions on the part of the practitioner.

However, there will be some scenarios where the practical knowledge of the underlying information rests with the practitioner and they will therefore be expected to, and will require to, apply some judgement as to the extent and scope of the procedures to be undertaken. For these reasons, we believe that the need for professional judgement in an AUP should not be restricted to the concepts of professional competence and due care. Client and engagement acceptance and continuance, as well as in determining and defining the extent of procedures to be performed, might also rely on the application of judgement, depending on the nature of the engagement.

We also believe that the procedures undertaken should avoid any reference to the terms audit, review and/or assurance and agree that the factual findings reported should not be based upon any subjective opinions or conclusions.

**Question 2**

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

**Response 2**

We believe that revised ISRS 4400 should include requirements relating to professional judgement but recommend that these are sufficiently flexible to be adaptable according to the specific nature of the engagement.

We would also re-emphasise the statement in our response to question 1 that we believe that the factual findings reported should not be based upon any subjective opinions or conclusions.

**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?*

**Response 3**

We believe that the existing approach in ISRS 4400 that requires a statement in the report of factual findings when the practitioner is not independent, is contradictory given that the standard does not include the requirement to comply with the principle of independence. As part of an AUP engagement, the practitioner should have the opportunity to discuss the engagement with the client before the engagement gets underway and this would be the appropriate moment for the practitioner to inform the client that he/she is not independent.

Our views would not differ if the AUP report was restricted to specific users.

**Question 4**

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

**Response 4**

We believe that the current use of misleading and unclear terminology creates confusion around the nature of the engagement and, in some instances, a misconception that some assurance is being provided by the practitioner undertaking an AUP.

However, the suggestion of a prohibition on such unclear or misleading terminology should be limited to those terms and words that create most confusion. For example, the use of words such as review, assurance and audit should be avoided as these may give the false impression that some assurance is being provided in an AUP.

Changes to the standard alone might not be sufficient to address the issue over the use of misleading and unclear terminology therefore we would also encourage greater engagement and outreach with third parties to help raise awareness of this issue.

Our views would not differ if the AUP report was restricted to specific users.

**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?*

**Response 5**

We welcome the clarification that ISRS 4400 includes non-financial information (NFI) as this is an area of increasing activity and it would be useful for practitioners to have more guidance available to them. We also agree that the standard should include the need for the engagement team as a whole to consider whether they have the collective expertise to perform the necessary AUP on NFI, in addition to the specific sectoral expertise.

**Question 6**

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

**Response 6**

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

**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?*

**Response 7**

We agree that it would be useful for ISRS 4400 to be enhanced for the use of experts in AUP engagements as there may be situations where specialist expertise is needed, for example, in matters related to NFI. These situations may not arise very often, but it would be helpful to address the issue in ISRS 4400.

**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.*

**Response 8**

We believe that retaining the 'short-form' AUP report would be the best option but would suggest that the AUP report could be improved by changing the structure of the report by presenting each procedure and corresponding finding together.

It might also be worth including in an appendix a longer form example of an AUP report for engagements that involve a large volume of procedures.

Finally, as referred to in our response to question 4, we would stress the importance of the AUP report avoiding unclear or misleading terminology.

One example of an illustrative report that communicates factual findings well is:

- The factual findings report to the Civil Aviation Authority in the UK by Air Travel Organisers' Licensing (ATOL) Reporting Accountants on the financial information submitted by the ATOL holder:  
<http://publicapps.caa.co.uk/modalapplication.aspx?catid=1&pagetype=65&appid=11&mode=detail&id=7285>

**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?*

**Response 9**

In our opinion, the practitioner should not normally accrue obligations to any user of the AUP report who has not signed up to the engagement letter. It should only be permissible for the AUP report to be provided to a party that is not a signatory to the engagement letter when the procedures to be performed in that AUP engagement are set out in law or regulation or are clearly described in the terms and conditions of the AUP engagement. Also, there could be local requirements for a practitioner to produce a report for wider distribution therefore this level of flexibility is needed. However, it is worth highlighting that often the practitioner will not know who the intended users are nor whether they have the necessary knowledge and understanding of the scope of the report and this reinforces the need for unambiguous terminology in 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.*

**Response 10**

In our view, the third approach, which would require the AUP report to include a statement to the effect that the report is intended solely for the specific users and may not be suitable for any other purposes, subject to law or regulation of the relevant jurisdiction, is the most appropriate as this offers greatest flexibility.

**Question 11**

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

**Response 11**

We have not identified any other approaches that the Working Group should consider.

**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?*

**Response 12**

We agree with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings. By providing recommendations, the practitioner is offering an additional service which, as noted in paragraph 47, should either be viewed as a by-product of the AUP engagement or a multi-scope engagement.

**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.*

**Response 13**

We believe that addressing the areas highlighted in the IAASB's discussion paper will clarify the value and limitations of an AUP engagement.

In addition, we believe that it is extremely important that IAASB clarifies the misconception that an AUP engagement is viewed, by some, to be an assurance engagement. This misconception extends to practitioners as well as clients. A clear introductory section in the standard would be helpful, to explain that AUP performed under ISRS 4400 should not be regarded as providing any form of assurance. The reference to ISAs in paragraph two of the introductory section of ISRS 4400 and the reference to "procedures of an audit nature" in paragraph four of the standard should be removed.

Furthermore, ISRS 4400 is silent on the role of the practitioner if he/she becomes aware of a suspected fraud or illegal act. Whilst there is no obligation on the practitioner to assess whether the AUP are adequate for the engagement, he/she should be alert to the risk of being asked to do something which is inappropriate and/or the risk of potential misuse of the report. Practitioners must also remain alert to the requirement not to be associated with misleading information when agreeing to perform an AUP engagement and whilst performing the engagement.

**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?*

**Response 14**

We believe that some form of non-authoritative guidance would be useful to address multi-scope engagements but this should be developed following the completion of the revision to ISRS 4400 to ensure that any non-authoritative guidance is based on the final requirements of the standard.

**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?*

*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.*

**Response 15**

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

We have no suggestions of guidance on, or examples of, multi-scope engagements to help inform further deliberations.