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Dear Sir,

Response to the IAASB's Exposure Draft, Proposed International Standard on Related Services 4400 (Revised) Agreed-Upon Procedures Engagements

EFAA appreciates the opportunity to provide our comments to the [Proposed International Standard on Related Services 4400 \(Revised\) Agreed-Upon Procedures Engagements](#), which have been prepared with input from our Assurance Expert Group and our CAG representative Hysen Cela.

EFAA believes that there is a significant need for agreed-upon procedures engagements (AUP), especially in terms of small and medium-sized practices (SMPs) performing such engagements for SMEs and their stakeholders. The realization, however, of this potential rests in large part on the ability of SMPs to innovate and their having a high-quality standard to work with. Hence the importance of this project.

The European Federation of Accountants and Auditors for SMEs ("EFAA") represents accountants and auditors providing professional services primarily to small and medium-sized entities ("SMEs") both within the European Union and Europe as a whole. Constituents are mainly small practitioners ("SMPs"), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs. EFAA represents 16 national accounting, auditing and tax advisor organisations with more than 370 000 individual members.

GENERAL OBSERVATIONS

We strongly support this project to modernize and clarify ISRS 4400 since, as we explain above, it has the potential to serve the needs in the market for agreed-upon procedures. We believe the proposed revisions will help realize this potential. Nevertheless, we have some general observations as well as comments in response to the questions posed in the ED.

Subject Matter

We strongly support the standard highlighting that it applies to the performance of AUP engagements on both financial and non-financial subject matters and the retention of the approach whereby practitioners report on the factual results differentiating this from subjective findings.

Independence

We agree that practitioners who undertake AUP engagements must be objective, but that they need not necessarily be independent in the same way they need to be for assurance engagements. That said there may be occasions where a practitioner's independence will be appropriate, for example where it is stipulated as part of the specific engagement terms.

Education and Awareness

We believe that the AUP engagement has considerable potential to provide added value and this may only be realized through education and promotion to both practitioners and stakeholders. There may be a role for the IAASB to lead a broader education campaign to enhance awareness and understanding of the nature, scope and benefit of AUP engagements.

Professional Judgement

We encourage the Board to reconsider the exercise of professional judgment in the performance of the procedures. While this may change the nature of some engagements from identifying and communicating (factual) findings to interpreting findings and making recommendations we believe that stakeholders would find it valuable to receive some interpretation to the findings from the practitioner.

Terminology

There is merit in promoting a wider understanding of an AUP engagement including where other parties specify the procedures and / or the form of reporting. This is essential in addressing the expectation gap and dealing with unclear or misleading terminology that may be inadvertently introduced by such other parties in designing AUP for their own purposes. Accordingly, we welcome the recognition that in some cases the requirements for specific procedures or reporting format may be set by parties other than the engaging party, for example by legislation or contract, and consequently terminology may sometimes differ from that used in ISRS 4400.

OVERALL QUESTION

Public Interest Issues Addressed in ED-4400

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

Yes, we believe that overall ED-4400 has been appropriately clarified and modernized to respond to the needs of stakeholders and address public interest issues. We believe that the value of an AUP engagement also lies in applying professional judgement and in responding to the needs of the intended users.

We support the standard highlighting that it applies to engagements on both financial and non-financial subject matters.

SPECIFIC QUESTIONS

Professional Judgment

- 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 of professional judgment plays in an AUP engagement?***

Yes, we agree.

As stated above we believe that professional judgment applied for the actual performance of the procedures may considerably increase the value added of an AUP. While this may change the nature of the engagement from identifying and communicating (factual) findings to interpreting findings and making recommendations we believe that many stakeholders will find this valuable. We therefore encourage the Board to consider introducing some flexibility in ISRS 4400 to allow for professional judgment to be applied in performing the AUP engagement.

Practitioner's Objectivity and Independence

- 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.

The exclusion of independence as a precondition permits greater flexibility in the application of the standard and opens up more opportunities for SMEs to benefit from added value in AUP engagements.

We welcome the reference to the fundamental principles in the IESBA Code of Ethics, in particular objectivity, and possible national ethical requirements.

- 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.***

We agree with the approach set out in the table.

The table adequately displays the different possibilities that might arise in practice. We believe that when the practitioner carrying out the AUP engagement is required to be independent then the AUP report should state that the practitioner has fulfilled relevant independence criteria. However, we do not believe in requiring the practitioner to make an independence determination when they are not required to be independent. The determination of independence is unnecessary for such an AUP engagement and adds no value to the users.

Findings

- 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 agree with the term “findings” and acknowledge that, according to A11, it can be replaced with “factual findings”. While many of those findings are factual in nature we believe, as stated above, that the definition should not totally exclude interpretations of or conclusions about individual findings. This is different and must be clearly separated from interpreting or concluding on the findings of the object as a whole, like in an assurance engagement.

We concur with the concerns expressed regarding the potential for misleading terminology to contribute to ongoing market confusion over what an AUP entails and how this creates or exacerbates the expectation gap. This is an issue encountered in practice, where AUP engagements are specified in contracts or legislation drafted by persons unfamiliar with the IAASB’s pronouncements on assurance and related services engagements.

Engagement Acceptance and Continuance

- 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?**

We agree overall. Nevertheless, we believe it to be important that the practitioner is satisfied that the expectations of the engaging party can be met by performing the expected procedures and the information supplied.

Practitioner’s Expert

- 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?**

We agree.

We believe the proposed extension of ED-ISRS 4400 to include the use of a practitioner’s expert increases the flexibility and practicability of the standard. We agree with the proposed requirements in paragraphs 28 and 31 on the use of a practitioner’s expert. Since the practitioner has overall responsibility for the AUP engagement, the expert may only be involved for selected and clearly defined areas. The determination as to whether an expert is needed, and the selection of the appropriate expert, demands professional judgement.

AUP Report

- 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?**

We agree.

- 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 content and structure of the proposed AUP report subject to any modifications relating to what is understood by findings (see question 5).

REQUEST FOR GENERAL COMMENTS

- 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.**

We are not aware of any potential translation issues.

(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 a 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.**

Yes, the proposed effective date of 18-24 months after the approval of a final ISRS should suffice.

CONCLUDING COMMENTS

We trust that the above is clear, but should you have any questions on our comments, please do not hesitate to contact us.

Yours faithfully,

Bodo Richardt
President

Paul Thompson
Director