

18 March 2019

Strictly Private & Confidential

International Auditing and Assurance Standards Board
529 5th Avenue
New York
NY 10017
United States of America

Dear Sirs

Proposed International Standard on Related Services 4400 (Revised) Agreed Upon Procedures Engagements

We are pleased to respond to your request for comments on your Exposure Draft of ISRS 4400 (Revised) Agreed Upon Procedures Engagements. We have responded to the specific questions posed in the exposure draft in turn below, but also have some overall observations.

When we responded to your discussion paper on the topic in March 2017, the audit exemption limit in the United Kingdom had recently been increased. As also noted in our response to the discussion paper, there is no requirement in the UK for companies that meet the audit exemption criteria to have any form of limited assurance review (except for certain public benefit entities) and demand for such a review on a voluntary basis has been very limited. We are however seeing increasing numbers of requests for agreed upon procedures engagements and whilst they remain, in our experience, most common where required by a grant giving body or other providers of funding, other types of AUP engagements are becoming more common.

There can, as also noted in our previous response, be a significant expectation gap on AUP engagements with one or more of the parties to the engagement believing that some form of assurance is being provided when the very nature of an AUP engagement means that it is not. We believe that the revisions to the Standard, and particularly the examples of appropriate and inappropriate terminology, will be helpful in addressing this, although there will still be a need to educate public bodies in particular about what such engagements entail, and the reports (and engagement letters) in respect of such work will still need to be carefully caveated.

Kingston Smith LLP

Chartered Accountants and Business Advisers
Devonshire House, 60 Goswell Road, London EC1M 7AD
020 7566 4000 www.ks.co.uk

A list of partners is available for inspection at the registered office
Registered in England and Wales as a Limited Liability Partnership: No OC317343
Registered office: Devonshire House, 60 Goswell Road, London EC1M 7AD

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

Yes, we agree that the ED has been appropriately clarified and modernised and will meet the needs of practitioners in performing AUP engagements much better than the current version of the Standard, which has been out of date for a number of years.

As noted above, there will still be a need for education of public bodies (for instance government entities) about what such an engagement entails. All too frequently practitioners are requested to 'verify' or 'certify' information and the widespread use in practice of the undefined term 'grant audit' in respect of engagements which may vary from genuine assurance engagements to AUP engagements is also unhelpful. Whilst the examples of appropriate and inappropriate terminology in the draft Standard are helpful they will not address this issue in isolation. We would suggest the IAASB consider how the messages in the revised Standard can best be communicated to government bodies, regulators and other bodies that often request AUP engagements (e.g. EU bodies) so that they are fully understood.

2. Do the definition, requirement and application material on professional judgement in paragraphs 13 (j) 18 and A14-A16 of ED4400 adequately reflect the role professional judgement plays in an AUP engagement?

Yes, we agree that the material on professional judgement provides welcome clarity over the role it plays in an AUP engagement, and that the exercise of judgement is different for such an engagement compared to an assurance engagement.

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 agree that the Standard should not include a precondition for the practitioner to be independent as this would be too restrictive given the Standard needs to be capable of being applied to many different types of engagement in many jurisdictions. We believe that it should be stated clearly in the AUP report whether or not the practitioner is required to be independent and if independence is required then the report needs to contain a clear statement of independence. We do not however believe it adds much to the report to disclose whether or not the practitioner is independent when there is no requirement for them to be, although we do not have strong views about this matter.

However we do believe there is a need for clarity regarding independence requirements where there is more than one party to the engagement. This is relatively common and such engagements are sometimes subject to a tripartite engagement letter and sometimes to standard terms and conditions issued by (for instance) a grant giving body. We assume the requirement to declare independence relates to the entity in respect of which the AUP report is being issued, and not the grant giving body, but this is not totally clear from the Standard.

- 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 ED4400? 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?**

Please see our response to the above question. We do not see the point of requiring a practitioner to make an independence determination when there is no requirement for them to be independent. If a statement of whether or not a practitioner is independent is mandated to be included in reports where there is no requirement for independence, it could lead to a perception that a report issued by a practitioner that is not independent is of lesser value than one issued by a practitioner that is independent, which we presume is not the intention of the Standard.

- 5. Do you agree with the term ‘findings’ and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED4400?**

Yes, we agree with the term and the related definitions.

- 6. Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-29 of ED4400 appropriate?**

Yes, we agree they are appropriate. The examples of appropriate and inappropriate terminology are helpful, although as noted earlier in this letter they will not address the expectation gaps that arise on AUP engagements in isolation.

We would also suggest that the term ‘verify’ is included as an example of inappropriate terminology. This is frequently used by government and regulatory bodies along with the term ‘certify’ (which has been included in the examples). The inclusion of the term ‘verify’ would be helpful when challenging requested report wording and we are concerned that its omission from the examples could be read by such bodies as implying that it constitutes acceptable terminology.

- 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 ED4400, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED4400?**

Yes, we agree. At present, in our experience, the use of experts on AUP engagements is rare in practice, but may become more common as the use of such engagements evolves.

- 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 ED4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?**

Yes, we agree. It is common in practice for an AUP report to be provided to (for example) a grant giving body when the practitioner is not reporting to them. Risk management issues arising from providing the report can be dealt with by the inclusion of appropriate wording in the report and the engagement letter regarding the use and distribution of the report and to whom the practitioner does, and does not, owe a duty of care.

9. Do you support the context and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 22 of ED4400? What do you believe should be added or changed, if anything?

We are broadly in agreement with the proposed structure of the report and note that the examples are meant to be illustrative rather than overly prescriptive. The form of the report needs to retain flexibility particularly as AUP assignments continue to evolve.

10. In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:

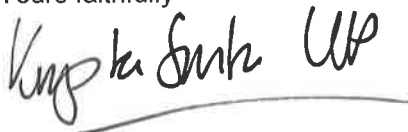
- a. **Translations – potential translation issues**
- b. **Effective date – the IAASB believes that an appropriate effective date for the standard would be for AUP engagements where the terms of engagement are agreed approximately 18-24 months after the approval of the final ISRS. Earlier application would be permitted and encouraged.**

We have no comments to make regarding translation issues.

As regards the effective date, in our opinion there is no need for a 24 month gap between the release of the final Standard and its effective date. 12-18 months should be more than sufficient for practitioners to understand the requirements and make the necessary changes to procedures. However we note that early adoption is encouraged and agree that this should be the case particularly if the effective date is delayed to two years from the date of release of the final Standard. We would anticipate that early adoption would be relatively common in practice.

We hope our comments are useful to you. If you have any questions, then please contact Tessa Park.

Yours faithfully



KINGSTON SMITH LLP