

March 8, 2019

Mr. Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
585 Fifth Avenue – 14th Floor  
New York, NY 10017  
U.S.A.

Dear Mr. Botha,

**Re. IAASB Exposure Draft Proposed ISRS 4400 (Revised), Agreed-Upon Procedures Engagements**

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide its comments on the proposed International Standard on Related Services 4400, *Agreed-Upon Procedures Engagements* (ED-4400).

In developing our response, we considered comments provided by our stakeholders. AASB staff held various consultation sessions with Canadian stakeholders and considered response letters received on the AASB's Exposure Draft (ED) on this topic. The [Appendix](#) provides a summary of the consultation sessions held and the respondents that provided written responses to the AASB's ED. In our response, "Canadian stakeholders" refers to those who provided us with input. Also, "we" refers to the AASB.

Our comments are set out under the following main headings:

- A. Request for Specific Comments; and
- B. Other Comments on Specific Paragraphs.

**A. REQUEST FOR SPECIFIC COMMENTS**

***Q1. Has ED-4400 been appropriately clarified and modernized to respond to the needs of stakeholders and address public interest issues?***

Overall, we agree that ED-4400 has been appropriately clarified and modernized to respond to the needs of stakeholders and address public interest issues. Canadian stakeholders have expressed strong support for many aspects of ED-4400, including the expansion of the scope to address non-financial subject matters and clarification of how professional judgment is exercised in an agreed-upon procedures (AUP) engagement.

**Q2. 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?**

We agree with how professional judgment is addressed in ED-4400. Canadian stakeholders indicated that the requirements and application material appropriately reflect the role professional judgment plays in an AUP engagement.

**Q3. 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 with not including a precondition for the practitioner to be independent when performing an AUP engagement. In our view:

- We believe that the factors considered by the IAASB in reaching its conclusion in paragraph 15 of the Explanatory memorandum are compelling.
- Not requiring independence provides flexibility for practitioners to perform AUP engagements when the engaging party and intended user do not require the practitioner to be independent. This flexibility is particularly important in the small-and-medium sized practice (SMP) environment. SMPs often conduct compilation engagements for small-and-medium sized entities for which independence is not required and not assessed by the practitioner. Accordingly, requiring SMPs to be independent for AUP engagements (when the engaging party and the intended users do not need the practitioner to be independent) could have unintended consequences of preventing SMPs from conducting such engagements – unless they assess their independence (which could be onerous for many SMPs in terms of time and cost).

However, in cases when the practitioner is required to be independent (for example, by laws or regulations or terms of engagement), we are of the view that there should be a precondition for the practitioner to have “no reason to believe that relevant ethical requirements, including independence, will not be satisfied.” Such a precondition would be consistent with paragraph 22(a) of ISAE 3000.<sup>1</sup> This precondition may be included in paragraph 20 along the following:

Before accepting an agreed-upon procedures engagement, the practitioner shall determine that the following conditions are present:

- (a) The engaging party acknowledges that the expected procedures to be performed by the practitioner are appropriate for the purpose of the engagement; ~~and~~
- (b) The agreed-upon procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations; and

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<sup>1</sup> ISAE 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

- (c) The practitioner has no reason to believe that relevant ethical requirements will not be satisfied including, if relevant, independence requirements.

***Q4. 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 support the IAASB's efforts to enhance transparency regarding the practitioner's independence. However, we have a few concerns about the proposed requirements and application material:

- If a practitioner is not required to be independent and has not determined independence, the required disclosure in paragraph 30(f)(ii)a may give the impression that the practitioner has determined independence, especially when compared to the required disclosures for circumstances when the practitioner is aware that the practitioner is not independent.
- Paragraph A41 seems to imply that the practitioner would only make a statement that the practitioner is not independent if the practitioner has formally determined that the practitioner is not independent. In our view, the disclosure in paragraph 30(g) should apply to circumstances when the practitioner is aware that the practitioner is not independent even though the practitioner has not formally determined independence.

In our view, the above issues could be addressed by enhancing transparency on:

- Circumstances when the practitioner has not determined that the practitioner is independent;
- Circumstances when the practitioner has not performed an independence assessment but is aware that the practitioner is not independent; and
- Reasons for which the practitioner is not independent.

To that end, we suggest the following changes to the requirements and application material on the disclosure of independence:

30(f) With respect to independence:

- (i) If required to be independent by relevant ethical requirements, terms of the engagement, or other reasons, a statement that the practitioner is independent and the basis therefor; or
- (ii) If not required to be independent by relevant ethical requirements, terms of the engagement, or other reasons, either:
  - a. If a determination has not been made that the practitioner is independent, a statement that the practitioner is not required to be independent and that the practitioner has not determined independence; or

- b. If a determination has been made that the practitioner is independent, a statement that the practitioner is independent and the basis therefor; (Ref: Para. A40)
- (g) ~~When it is known~~ If the practitioner is aware that the practitioner is not independent, a statement to that effect and an explanation as to why the practitioner is not independent; (Ref: Para. A41–A42)

A40. In some circumstances, the practitioner may have determined that the practitioner is independent even though the relevant ethical requirements do not require such a determination. For example, the practitioner may have made the independence determination in connection with performing an audit engagement for the entity.

A41. In other circumstances, the practitioner may be aware that the practitioner is not independent without having performed an independence determination. For example, when the practitioner holds a direct financial interest in the engaging party. Alternatively, the practitioner may have determined that the practitioner is not independent even though the relevant ethical requirements do not require such a determination. For example, the practitioner may have determined that the practitioner is not independent when previously considering whether to accept an assurance engagement for the entity.

~~A42. If a statement is made that the practitioner is not independent, the practitioner may wish to include an explanation as to why the practitioner is not independent.~~

***Q5. Do you agree with the term “findings” and the related definition and application material in paragraphs 13(f) and A10-A11 of ED-4400?***

We agree with the term “findings” and the related definition and application material. The use of the term “findings” together with the definition and application material help to clarify that the results of performing the agreed-upon procedures must be “factual” and are capable of being objectively verified and objectively described.

***Q6. 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, in part, with the requirements and application material on engagement acceptance and continuance. As set out in our comments to Q3 above, in cases when the practitioner is required to be independent, we are of the view that there should be a precondition on independence similar to that in paragraph 22(a) of ISAE 3000.

***Q7. 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, in part, with the requirements and application material on the use of a practitioner's expert. In our view, some of the procedures relating to the use of an expert may be undertaken at the engagement acceptance stage. For example, at the engagement acceptance stage, the practitioner may determine whether he or she will be able to be involved in the work of an expert to an extent that is sufficient to take responsibility for the findings. To better reflect the timing of such procedures, we suggest including an application paragraph similar to that in paragraph A71 of ISAE 3000: "When the work of a practitioner's expert is to be used, it may be appropriate to perform some of the procedures required by [para. 28 (the requirement on use of expert)] at the engagement acceptance or continuance stage."

***Q8. 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 that there should not be a requirement that the AUP report should be restricted to parties to the engagement. Restricting the report would reduce its usefulness as AUP reports are often provided to users such as regulators who are not parties to the engagement.

***Q9. 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 agree, in part, with the requirements and application material. Many Canadian stakeholders indicated that they found the illustrative AUP reports very helpful in providing guidance on describing procedures and findings using terminology that is clear, not misleading and not subject to varying interpretations.

When describing the procedures and findings, there is a risk that the practitioner may unintentionally include confidential information in the descriptions. Therefore, we suggest an application paragraph to remind practitioners to consider law and regulations pertaining to confidentiality when describing the procedures or findings (for example, being careful not to include home addresses or other potentially sensitive information in the descriptions).

Canadian stakeholders have also indicated that laws or regulations may require AUP reports to be provided directly to intended users rather than the engaging party (for example, an AUP report that is provided to the public (the intended users) and the regulator is the engaging party). To further enhance the usefulness of the illustrative AUP reports, we suggest that the IAASB consider including an example of an AUP report that is provided directly to an intended user.

**Q10. In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:**

**Q10a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-4400.**

We did not identify any translation issues.

**Q10b) 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 disagree with the proposed effective date. Paragraph 11 of ED-4400 suggests that the effective date will be based upon the date on which the terms of engagement are agreed. In our view, basing the effective date on when the terms of engagement are agreed would not be practical for recurring engagements or when there has been an amendment in the terms of engagement. We suggest that the effective date be based on the AUP report date. We note that basing the effective date on the date of the report is also consistent with other IAASB pronouncements such as ISAE 3000.

## **B. OTHER COMMENTS ON SPECIFIC PARAGRAPHS**

### Written Representations (paragraph 27)

We agree with the IAASB's proposal not to require the practitioner to request written representations. However, we are also of the view that the practitioner should not be required to "consider whether it is necessary to request written representations from the engaging party" for the same reasons that the IAASB decided not to require the practitioner to request written representations. In our view, the requirement for the practitioner to consider whether it is necessary to request written representations seems overly onerous as evidence from written representations is not necessary in an agreed-upon procedures engagement. Further, the requirement to consider the necessity of requesting written representations will likely result in perfunctory documentation in most cases (that is, document that the practitioner has considered the necessity of requesting written representations and concluded that representations are not necessary). Accordingly, we suggest that paragraph 27 be removed.

### Reporting on other engagements (paragraph A45)

Paragraphs 33 and A45 deal with circumstances when the practitioner is requested to perform other engagements together with an AUP engagement. The application paragraph discusses the provision of recommendations as an example of another engagement that the practitioner is requested to perform with the AUP engagement. Canadian stakeholders indicated that requests for the practitioner to perform an assurance engagement together with an AUP engagement are common in Canada. We believe that requests for such "multi-scope engagements" are common in other jurisdictions as well. Therefore, we suggest that paragraph A45 be expanded to include an example of an AUP engagement being performed together with an assurance engagement.

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Editorial comments on ED-4400 have been provided directly to the IAASB staff.

We hope that these comments will be useful to the IAASB in determining the appropriate next steps relating to this key project. If you have any questions or require additional information, please contact Ken Charbonneau at [kcharbonneau@iasbcanada.ca](mailto:kcharbonneau@iasbcanada.ca).

Yours very truly,

Ken Charbonneau FCPA, FCA  
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board members

Eric Turner, member of the International Auditing and Assurance Standards Board

## **Appendix: Summary of consultations on the AASB's Exposure Draft of ISRS 4400 (Revised)**

### **I. Respondents to the AASB's ED**

- 2 responses from large firms
- 2 responses from legislative auditors
- 1 response from a provincial CPA body

### **II. Roundtable sessions on the AASB's ED**

- 1 virtual roundtable session with representatives from small-and-medium sized practices and legislative auditors
- 1 face-to-face roundtable session with representatives from small-and-medium sized practices, large firms and provincial CPA body that work with users of AUP reports