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29 March 2017

Ms. Kathleen Healy
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017
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Discussion Paper: *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards*

Dear Ms. Healey,

BDO International Limited¹ (BDO) is pleased to have the opportunity to comment on the 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*.

We are supportive of the IAASB's overall approach of proposing revisions to ISRS 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information* in order to clarify the requirements and provide additional guidance. We agree that there is increased demand for these types of engagements and the proposals put forth in the paper, including adoption of a clarity format, would generally improve the quality of Agreed-Upon Procedures (AUP) engagements and the corresponding report. Our responses to the questions posed in the discussion paper follows.

Specific Matters

The Role of Professional Judgment and Professional Scepticism in an AUP Engagement

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?

We believe that professional judgment has a place in the AUP engagement, but should not be confined only to professional competence and due care. There will be some situations in AUP engagements where professional judgment beyond professional competence and due care may be applicable and we propose that the practitioner have flexibility in making this determination.

The recommendation of the Working Group to include a discussion of professional judgment in the Introductory section would be helpful in differentiating between assurance and non-assurance

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engagements. We believe the type of assurance provided in an engagement, if any, is determined by the type of engagement and work effort and would not be based on the application of professional judgment.

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

We agree with the Working Group's proposal to include additional content on the role of professional judgment in the Introductory section of the revised standard. This guidance should include examples as described in paragraph 12 of the Discussion Paper as well as other relevant examples.

We do not foresee any unintended consequences of providing such content. In addition, it is consistent with the requirements of the International Ethics and Standards Board of Accountants Code of Ethics for Professional Accountants (IESBA Code) for non-assurance engagements².

We encourage the IAASB to continue to actively monitor the work being performed across IFAC standard setting boards as part of the Professional Skepticism Working Group (PSWG). As the Discussion Paper notes, currently there is no explicit reference to professional skepticism within ISRS 4400. However it will be of interest to see if the PSWG identifies or recommends a baseline of professional skepticism applicable to all practitioners.

The Independence of the Professional Accountant

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

Independence is an important principle in performing assurance engagements. However, AUP engagements are considered non-assurance engagements. The IESBA Code includes the requirement for the practitioner to be objective when performing non-assurance engagements which involves the practitioner acting without bias, conflict of interest or the undue influence of others³. We believe this requirement is sufficient when performing AUP engagements. If local jurisdictions choose to set independence requirements with respect to AUP engagements, that is their prerogative. Further, we support the current requirement to include a statement that the practitioner is not independent when applicable in the AUP report and the engagement terms. When the practitioner and/or the firm is also involved in assurance work for the same entity, this would mean that the practitioner will comply with applicable independence rules. In that case, the practitioner should determine that the AUP engagement does not conflict with the independence rules for the assurance engagement (i.e. the AUP engagement does not create independence threats that cannot be safeguarded). We advise to add this as a requirement in ISRS 4400.

This view would not change even if the AUP report is restricted to specific users.

² IESBA Code, paragraphs 130.1 and 130.2.

³ IESBA Code, paragraph 120.1.

Terminology in Describing Procedures and Reporting Factual Findings in an AUP Report

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?

The terminology used in the AUP report is critical in ensuring that the procedures are precise and the findings are clear from both the user and practitioner perspectives. We support the inclusion in the revised standard of examples of terminology that would be considered unclear or misleading; however, such a list is unlikely to ever be complete. We have concerns about prohibiting the use of unclear or misleading terminology in general as these may form part of the legal or regulatory requirements of the AUP engagement. In addition, what a practitioner views as unclear or misleading may differ from the view of a reader of the report. As a result, such a prohibition would be difficult to implement. We propose instead to include guidance that the practitioner, with the entity, review the procedures and report for unclear or misleading terminology and if necessary, define these terms in the report. Examples of unclear or misleading terminology with the revised proper wording could be provided in the application guidance. We also suggest that objectively understood factual findings be emphasised in the application guidance.

For example, the Canadian Standard on Related Services (CSRS) 4460 - Reporting on Supplementary Matters Arising from an Audit or a Review Engagement includes certain requirements regarding terminology. Per paragraph 20(c) of this standard: "When the other reporting responsibility includes items that are subject to significant interpretation, identify such items and define or interpret them."⁴

There is also some guidance within this standard which discusses the use of certain phrases that may be misleading. Per paragraph A23:

"Further, the body of some prescribed forms may use words or phrases such as "in my opinion", "verify", "certify", or "confirm". The practitioner's ability to accept engagements involving such forms is dependent on how these terms are used. When the use of these terms implies that the practitioner is forming a conclusion on the prescribed form as a whole (for example, certifying that the contents of the form are correct), the practitioner would not accept the engagement. However, the use of such terms in some contexts may not preclude the practitioner from accepting the engagement. For example, a questionnaire may require the practitioner to certify that the practitioner observed the entity's year-end inventory count as part of the audit engagement. Such a statement could be provided."⁵

Application paragraph A61 goes on to state:

"The practitioner is not required to list terms and/or interpretations in the practitioner's report. However, the practitioner may choose to do so. The practitioner may state, for example:

⁴ CPA Canada (2017). *CPA Canada Handbook - Assurance, CSRS 4460 Reports on Supplementary Matters Arising from an Audit or a Review Engagement*, paragraph 20(c).

⁵ CPA Canada (2017). *CPA Canada Handbook - Assurance, CSRS 4460 Reports on Supplementary Matters Arising from an Audit or a Review Engagement*, paragraph A23.

- We interpreted "adequate books and records" to mean that the accounting ledgers and related source documentation were sufficient to enable us to opine without qualification on the related financial statement audit.
- We interpreted "timely" to mean within one week."⁶

This view would not change even if the AUP report is restricted to specific users.

AUP Engagements on Non-Financial Information

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?**

We support the Working Group's proposal to clarify that the scope of ISRS 4400 includes non-financial information. We also agree with the inclusion of the specified pre-condition requirements prior to accepting the AUP engagement. In this context, the potential requirements identified by the Working Group in paragraph 31 of the Discussion Paper on (i) sufficient practitioner competence and (ii) collective engagement team competence, both appear to be a good starting point for further consideration.

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

We did not identify additional matters to be considered.

Using the Work of an Expert

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?**

We support the Working Group's proposals to enhance ISRS 4400 by including content that focuses specifically on the use of experts in AUP engagements. If the engagement involves the use of an expert, the proposal to include an evaluation of the expert's objectivity and competence, along with agreeing with the entity the nature, extent and timing of the procedures to be performed by the expert, should be considered when making the decision to accept the engagement. This would assist in ensuring that the results of procedures performed by the expert and included in the AUP report are factual, objectively verifiable and there is no implication that assurance is being provided.

We also support the additional requirements for the practitioner to evaluate the procedures performed by the expert for consistency with the terms of the engagement and that the findings provide sufficient detail to describe the results of the procedures.

In addition, we propose including guidance on some example situations where the practitioner would bring in an expert to the AUP engagement and not provide a conclusion on the work of that expert.

⁶ CPA Canada (2017). *CPA Canada Handbook – Assurance, CSRS 4460 Reports on Supplementary Matters Arising from an Audit or a Review Engagement*, paragraph A61.

Format of the AUP Report

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.

We agree with providing the suggested additional illustrative AUP reports in the revised standard. The proposed structure of presenting the procedure with the corresponding description of the results immediately thereafter or in a table format promotes user understanding of the information being provided. In addition, a sample report including definitions of terminology which may be considered unclear or misleading would be helpful. We propose that emphasis should be added that the sample reports are for illustrative purposes only and should be modified to the specific requirements of the AUP engagement.

As an international network of member firms, many of our practitioners operate in jurisdictions where English is not the primary language. Having a range of illustrative reports helps to put the requirements and other content in standards in context and provides greater clarity for practitioners.

We have attached a sample illustrative report we believe communicates factual findings well in Appendix I.

AUP Report Restrictions - To Whom the AUP Report Should be Restricted

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?

We agree that the AUP report can be provided to a third party that is not a signatory to the engagement letter as long as the agreed procedures and conditions of the engagement are clearly communicated to such users.

In addition, certain conditions may be set in general by the third party, such as the European Union, government, professional bodies, etc. If such third parties are not signatories to the engagement letter, other means should be considered to ensure the conditions are understood. An example of how this could be accomplished would be through a letter of acknowledgement, where the third party agrees to the terms of the engagement, without signing the engagement letter. A letter of acknowledgement may also include a hold harmless release clause limiting the liability of practitioners with third parties, where such terms are permitted by local laws and regulations.

We also suggest that the revised standard include the following in the terms of the engagement with the client:

- specific guidance regarding the responsibilities of the practitioner to communicate the restrictions on distribution and/or use of the report (if any); and
- a requirement that the client agrees that the report will only be made available to third parties after receiving approval from the practitioner.

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.

Our preference with respect to the three possible approaches to restricting the AUP report described in paragraph 44 would be to allow the practitioner to select which approach would be most suitable to their specific client situation. We believe this approach is similar to what is described in paragraph 44(b) of the Discussion Paper. This approach would provide the entity with flexibility in meeting legal or regulatory requirements which may require distribution of the AUP report to other parties who are not the intended users. Further, restricting the use and distribution of a report is usually a decision made by the practitioner based on their risk management policies and the applicable laws and regulations in their local jurisdictions.

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

We did not identify additional approaches that should be used in restricting the AUP report.

Recommendations Made in Conjunction with AUP Engagements

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?

When required by the AUP engagement, we agree that practitioners have the option to include the recommendations either in the AUP report in a section separate from the procedures and factual findings or in a separate document from the AUP report. Regardless of which option is selected by the practitioner, we suggest having an introduction, prior to listing the recommendations, indicating that these are required per the engagement terms and are a by-product of the AUP engagement. This would reduce the risk of the perception that the practitioner may be providing an opinion in the report and users would be less likely to misinterpret that the recommendations are part of the factual findings of the AUP report.

Other Issues relating to ISRS 4400

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.

There are no other areas in ISRS 4400 that we believe require improvement.

Multi-Scope Engagements

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?

As an international network of member firms, we champion the development of different types of engagements in which clients see value. Multi-scope engagements as described in paragraphs 50 and 52 of the discussion paper appear suitable in terms of the types of services that can be provided by a practitioner. As these types of engagements contain elements which are addressed by existing IAASB standards, we believe providing guidance would be useful to address the increased demand for these engagements. We propose that any guidance on multi-scope engagements should not be included as part of ISRS 4400 but in a separate standard or in non-authoritative guidance.

For example, the Canadian Standard on Related Services 4460 - *Reporting on Supplementary Matters Arising from an Audit or a Review Engagement* is an example of a multi-scope

engagement. The scope of this standard encompasses circumstances when a practitioner has been requested to accept another reporting responsibility having all of the following attributes⁷:

- (a) The practitioner has been engaged or requested to perform an audit or a review engagement;
- (b) The practitioner has received a request from a third party, or is required by law, regulation or agreement, to provide a written report on a supplementary matter arising from the audit or review engagement;
- (c) The practitioner has not been engaged to perform an audit or a review engagement on the supplementary matter referred to in (b); and
- (d) The practitioner's responsibility to provide the written report is not covered by other standards in the CPA Canada Handbook – Assurance.

Other reporting responsibilities include⁸:

- Completing or reporting on supplementary information;
- Completing or reporting on questionnaires;
- Reporting instances of non-compliance with law, regulation or agreement;
- Reporting facts or figures other than the information on which the practitioner is performing an audit or a review engagement;
- Reporting observations made or items of interest to the third party; or
- Providing recommendations.

The first step in accepting this kind of an engagement is determining whether all criteria above are met and if the other reporting responsibility is within the practitioner's area of expertise and that the wording used does not indicate or suggest that the practitioner is providing assurance on the subject matter. As noted above in the response to question 4, there is also some guidance regarding what to do when the terminology or criteria used is unclear, and how to ensure this information is appropriately provided to the users of the report.

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

We agree that it would be more efficient for the Working Group to complete the revisions to ISRS 4400 prior to developing guidance on 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.

We suggest guidance on multi-scope engagements include the following:

- Structure of the report containing various elements of reasonable assurance engagements, limited assurance engagements, and non-assurance engagements. We suggest including an introduction which lists the engagements included with the package of reports. Each engagement would then have its own section within the package of deliverables, with its own report / communication.
- Independence considerations where, prior to engagement acceptance of a multi-scope engagement, the practitioner is required to assess if independence is required. If at least one of the engagements in the multi-scope engagement requires independence, then the practitioner must be independent or they cannot accept the multi-scope engagement.

⁷ CPA Canada (2017). *CPA Canada Handbook – Assurance, CSRS 4460 Reports on Supplementary Matters Arising from an Audit or a Review Engagement*, paragraph 1.

⁸ CPA Canada (2017). *CPA Canada Handbook – Assurance, CSRS 4460 Reports on Supplementary Matters Arising from an Audit or a Review Engagement*, paragraph 2.

- Illustrative examples of reports issued in multi-scope engagements.

Other examples of multi-scope engagements include:

- reporting on grants and framework programs in addition to an audit of financial statements;
- performing AUP on certain financial or non-financial data in addition to an audit of financial statements; and
- performing an ISA 805 engagement on an element of the financial statements in addition to an audit of financial statements.

We appreciate the opportunity to comment on the IAASB's Discussion Paper and hope that our comments and suggestions will be helpful to you in your deliberations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,
BDO International Limited

Chris Smith
Global Head of Audit and Accounting

APPENDIX I: Sample Illustrative Report

Report of factual findings in connection with the balance sheet as per 31 October 2016

To: the General Meeting and the Board of Directors of CLIENT XYZ

Engagement

We have performed some specific procedures for you with respect to the balance sheet as per 31 October 2016 of CLIENT XYZ and its subsidiaries SUBSIDIARY. and SUBSIDIARY 2. For the terms of our engagement we refer to our engagement letter dated XX January 2017. This report details the findings resulting from these procedures.

This report aims users to assess for themselves the procedures and findings reported by us and to draw their own conclusions based on our work. Had we performed additional procedures or had we performed an audit or a review engagement, other matters might have come to light, that would have been reported. The report relates only to the balance sheet as per 31 October 2016 and it does not extend to the financial statements of CLIENT XYZ taken as a whole.

Nature and scope of the procedures performed

Our engagement was performed in accordance with Dutch law, including Standard 4400, "Engagements to Perform Agreed-upon Procedures Regarding Financial Information". The objective of this agreed-upon procedures engagement is to carry out procedures to which we and CLIENT XYZ and the potential investor have agreed and to report on factual findings.

As we simply provide a report of the factual findings of agreed-upon procedures, this means that no audit procedures or review procedures have been performed on the financial data and notes in the balance sheet as per 31 October 2016 of CLIENT XYZ. As a consequence, our report provides no assurance on the financial data and notes thereto as included in the balance sheet as per 31 October 2016 of CLIENT XYZ.

Description of the specific procedures performed and factual findings

1. We have obtained the bank reconciliation statements as per 31 October 2016 of CLIENT XYZ and its subsidiaries SUBSIDIARY. and SUBSIDIARY 2. The bank reconciliation statements as per 31 October 2016 of CLIENT XYZ and its subsidiaries SUBSIDIARY. and SUBSIDIARY 2 shows an amount of € 706,848 for CLIENT XYZ, an amount of € 45,834 for SUBSIDIARY. and an amount of INR 524,326,474 for SUBSIDIARY 2. The general ledger account for cash and cash equivalents as per 31 October 2016 of CLIENT XYZ and its subsidiaries SUBSIDIARY. and SUBSIDIARY 2 shows an amount of € 706,848 for CLIENT XYZ, an amount of € 45,834 for SUBSIDIARY. and an amount of INR 524,326,474 for SUBSIDIARY 2. The bank statements or output from electronic banking system as per 31 October 2016 of CLIENT XYZ and its subsidiaries SUBSIDIARY. and SUBSIDIARY 2 shows an amount of € 705,672 for CLIENT XYZ (using exchange rate of EUR/USD of 1.0946 for balances in USD), an amount of € 45,865 for SUBSIDIARY. and an amount of INR 523,795,437 for SUBSIDIARY 2.
2. We have reconciled the corresponding figures as per 31 September 2016 of the assets and liabilities with a value above € 50,000 as recognised in the balance sheet per 31 October 2016 to the financial information of CLIENT XYZ as per 30 September 2016. Based on inquiry with the Board of Directors on 17 January 2017 the following movements above € 50,000 are reported for CLIENT XYZ:

- a. The intangibles assets show an increase of € 322,568 compared the balance between 30 September 2016 and 31 October 2016. Based on inquiry from the board of directors this moment relates mainly to XX.
- b. The investments in subsidiaries show an increase of € 445,311 compared the balance between 30 September 2016 and 31 October 2016. Based on inquiry from the board of directors this moment relates mainly to XX.
- c. The investments show an increase of € 2,171,596 compared the balance between 30 September 2016 and 31 October 2016. Based on inquiry from the board of directors this moment relates mainly to XX.
- d. The account receivable from related parties show an increase of € 64,701 compared the balance between 30 September 2016 and 31 October 2016. Based on inquiry from the board of directors this moment relates mainly to XX.
- e. The cash and cash equivalents show a decrease of € 2,706,810 compared the balance between 30 September 2016 and 31 October 2016. Based on inquiry from the board of directors this moment relates mainly to XX.
- f. The financial debt show an increase of € 816,122 compared the balance between 30 September 2016 and 31 October 2016. Based on inquiry from the board of directors this moment relates mainly to XX.
- g. The other payables and accrued liabilities show a decrease of € 2,351,990 compared the balance between 30 September 2016 and 31 October 2016. Based on inquiry from the board of directors this moment relates mainly to XX.
- h. The trade payables to related parties show a decrease of € 83,157 compared the balance between 30 September 2016 and 31 October 2016. Based on inquiry from the board of directors this moment relates mainly to XX.
- i. The other current liabilities to related parties show an increase of € 504,360 compared the balance between 30 September 2016 and 31 October 2016. Based on inquiry from the board of directors this moment relates mainly to XX.

Based on inquiry with the Board of Directors on 17 January 2017 the following movements above € 50,000 are reported for SUBSIDIARY.:

- a. The accounts receivable intercompany show an increase of € 480,000 compared the balance between 30 September 2016 and 31 October 2016. Based on inquiry from the board of directors this moment relates mainly to XX.

Based on inquiry with the Board of Directors on 17 January 2017 the following movements above € 50,000 (using exchange rate of EUR/INR of 72) are reported for SUBSIDIARY 2:

- a. none

3. We have investigated for the assets with a value above € 50,000 as recognised in the balance sheet per 31 October 2016 (except cash and cash equivalent, goodwill, investment in subsidiaries, intercompany positions and the loan to ABC) if there is any evidence that these should be impaired. We have made a comparison between the budget for the period 1 April 2016 till 31 October 2016 and the actual figures for the period 1 April 2016 till 31 October 2016 for the total expenses and for the net result and noted the following:
 - a. The total expenses for the period 1 April 2016 till 31 October 2016 are € XX higher/lower than the budget.
 - b. The net result for the period 1 April 2016 till 31 October 2016 is € XX higher/lower than the budget.

The Board of Directors reported to us on 17 January 2017 that they do not have any evidence that the abovementioned items should be impaired.

The general ledger for the period 1 November 2016 till 31 December 2016 of CLIENT XYZ does not show an impairment loss on the abovementioned items.

4. We have obtained the balance sheet as per 31 October 2016 and we have agreed it to general ledger as per 31 October 2016 and found no deviations.

Restriction of use and distribution

This report is restricted to CLIENT XYZ and the potential investor since others, unaware of the reasons for the procedures, may misinterpret the results. We kindly request you not to distribute this report to any others without our prior consent.

Amstelveen, xx January 2017