



International Auditing and Assurance
Standards Board

Stockholm 29 March 2017

**Exploring the Demand for Agreed-Upon Procedures Engagements
and Other Services, and the Implications for the IAASB's
International Standards**

FAR, the Institute for the Accountancy Profession in Sweden is responding to your invitation to comment on the discussion paper *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards*.

FAR's responses to the questions in the discussion paper are presented in the attachment to this letter.

FAR

A handwritten signature in blue ink, appearing to read 'Håkan Malmström', with a horizontal line extending to the right.

Håkan Malmström
Chairman FAR audit working group

Appendix

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

Q1. 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?

Professional judgment is a term that is strongly associated with assurance engagements. Even if the procedures in an AUP engagement should result in objectively verifiable factual findings the practitioner uses his or her judgment in some way. For example, when deciding if there are verifiable factual findings and if the procedures are sufficient to meet the client's need and are appropriate due to the objectives. Judgment is also used when analysing risks of misstatement caused by fraud or error. In the glossary of terms in *Handbook of International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements 2016-2017 edition* the definition of professional judgement regarding audit assignments is:

"The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement".

If the term professional judgement shall be used in the context of an AUP engagement it is important to define the term in this context. Relevant training, knowledge and experience is always important, also in an AUP engagement. A risk with using the term professional judgment in ISRS 4400 however, is that this can create misconceptions that it is an assurance engagement because the term only has been used in such engagements before. For that reason, it could be considered to rephrase the term in ISRS 4400, but still emphasising the importance of relevant training, knowledge and experience.

Q2. Should revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?

See answer above to Q1.

The Independence of the Professional Accountant

Q3. What are your views regarding practitioner independence for AUP engagements? Would your views change if the AUP report is restricted to specific users?

FAR's view is that the practitioner should be independent when performing an AUP engagement. This would be a way to reduce the risk of an expectation gap from stakeholders and to add credibility to an AUP engagement. A question that is not raised in the discussion paper is which competence should be required of the practitioner. In FAR's experience, it is common that a client expects the practitioner to



perform an AUP engagement that in reality is, or is tangent to, an assurance engagement. FAR is hesitant to believe that a practitioner without competence of assurance engagements can handle such a situation. For this reason, FAR's view is that AUP engagements only should be performed by practitioners with experience from assurance engagements, in other words an auditor.

FAR's view in this regard does not change if the AUP report is restricted to specific users.

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

Q4. What are your views regarding a prohibition on unclear or misleading terminology with related guidance about what unclear or misleading terminology mean? Would your views change if the AUP report is restricted?

FAR believes that the use of misleading or unclear terminology generally should be prohibited in an AUP report, unless specific wordings are required by law or regulation. By prohibiting the use of misleading or unclear terminology *generally*, FAR means that the standard should not forbid specific terminology, but instead discuss what terminology may be misleading or unclear and give examples. The revised ISRS 4400 should leave to the practitioner to determine which terminology is misleading or unclear. A list of specific prohibited terminology may be useful in the English original of the standard but may be difficult to translate to other languages, which is why FAR does not approve of such a list. In the cases when the practitioner, due to law and regulation, should be required to use unclear or misleading terminology in the AUP report the practitioner should explain the meaning of the used terminology. Clear guidance on wording in the AUP report would make it easier for practitioners to write their reports but also to respond to questions from clients regarding used terminology or demands from third parties to use a specific format.

FAR does not have any other opinion if the report is restricted to specific users.

AUP Engagements on Non-Financial Information

Q5. 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?

FAR is positive regarding clarifying that the scope of ISRS 4400 includes non-financial information. There should not be any restrictions in applying AUP engagement on non-financial information.

In the International Framework for Assurance Engagements paragraph 23 it is stated that the persons who perform the engagement collectively should have the appropriate competence and capabilities. In paragraph 31 it is stated that an engagement shall not be accepted if the requirements regarding competence not will be satisfied. The same should apply for AUP engagements, both regarding financial and non-financial information, FAR's view is therefore that this should be stated in ISRS 4400.



Q6. Are there any other matters that should be considered if the scope is clarified to include non-financial information?

No.

Using the Work of an Expert

Q7. 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?

If an AUP engagement is performed on non-financial information it can be important for the practitioner to use the work of an expert with necessary knowledge in the required field. FAR agrees with the Working Group to enhance ISRS 4400 in the way suggested.

Format of the AUP Report

Q8. 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.

When there are more than a few procedures and factual findings, the AUP report would be improved by presenting the procedures and corresponding findings in a tabular format or each procedure and corresponding finding together. The same layout should be used even when there only are few procedures and findings.

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

Q9. 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?

Yes, FAR agrees.

Three Possible Approaches to Restricting the AUP Report

Q10. In your view, which of the three approaches described in paragraph 44 is the most appropriate (and which ones are not appropriate)? Please explain.

In FAR's view, approach c described in paragraph 44 is the most appropriate. By including a statement that the report is intended solely for specific users and may not be suitable for other purposes the report can be made more widely available.

Q11. Are there any other approaches that the Working Group should consider?

FAR has not identified any other approaches that the Working Group should consider.

Recommendations Made in Conjunction with AUP Engagements



Q12. 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?

Yes, we agree, due to it is a consulting engagement to make recommendations regarding for example improvements in internal control or accounting.

Q13. 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.

FAR is positive to improvements of ISRS 4400. It would be valuable for the practitioners with more examples, illustrative reports and application instructions.

It is common that the third party in an AUP engagement, for example charitable organizations, provides the practitioner with a list of procedures to report on. These instructions are often used by a large number different practitioners who perform the procedures on entities which have different systems and routines. It is hard to design procedures which can be performed by the practitioners without them making judgements. It would be useful if the IAASB in a ISRS 4400 Revised would add guidance on how to deal with situations when standard procedures shall be performed by practitioners in many different entities.

Multi-Scope Engagements

Q14. 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?

It would be useful with guidance and practical examples of how the practitioners can handle these types of engagements. Differences between the various types of engagements and differences in reports from the auditor should be highlighted. A non-authoritative guidance can be sufficiently to start with and there after the need of a standard can be considered.

Q15. Do you agree with the Working Group's view that it should address issues within AUP engagements before it addresses multi-scope engagements?

Yes. The AUP report is an important report for the SMP:s and the ISRS 4400 needs to be updated and more informative to practitioners. How to form a report with the right vocabulary needs to be expressed in the revised ISRS 4400.

Many auditors don't have a lot of practice in AUP reports, which leads to problems when forming procedures for the objective needed to verify. When the revised ISRS 4400 is published it would be helpful with three short films on YouTube together with slides "How to form procedures when doing AUP", "How to perform an AUP" and "How to form an AUP report".