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Mr. Willie Botha  
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## **Exposure Draft: *Proposed ISRS 4400 (Revised), Agreed-Upon Procedures***

Dear Mr Botha

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the Exposure Draft, *Proposed ISRS 4400 (Revised), Agreed-Upon Procedures* (ED-ISRS 4400), issued by the International Auditing and Assurance Standards Board (IAASB).

We support the revision to this Internal Standard on Related Services to redraft the standard using the clarity drafting conventions, which enhances the ability for practitioners to understand and effectively apply the standard. We also agree with the modernizations made to expand the scope of the standard to include non-financial subject matters and the removal of the requirement to restrict the agreed-upon procedures report (AUP report) to those parties that have agreed to the procedures to be performed. However, we have included suggestions in our letter to further enhance the guidance to more effectively support the practical implementation of these modernizations.

We are supportive of the specific clarifications that have been added to ED-ISRS 4400 to improve the transparency of the status of the practitioner's independence through explicit statements in the AUP report. However, we disagree with the wording of the proposed required statement when the practitioner is not required to be independent because we do not believe this statement is fully transparent without explaining that the practitioner has not assessed independence. We also do not believe the proposed reporting requirement that addresses when the practitioner is "not independent" is capable of consistent application without a globally-defined basis for assessing independence for AUP engagements. See our response to Q4 for further details.

Regarding the use of professional judgment, we recognize that professional judgment is applied in various aspects of an AUP engagement, particularly in making engagement acceptance decisions. However, we do not support the inclusion of the definition of professional judgment and a requirement to apply professional judgment "in conducting the engagement". In an AUP engagement, different practitioners performing the same procedures are expected to arrive at the same findings, which means professional judgment should not be a factor in the execution of the procedures. We believe the increased emphasis on professional judgment in ED-ISRS 4400 overshadows, and could lead to misinterpretation of, this fundamental premise of an AUP engagement. See our response to Q2 for additional information.

Our responses to the specific questions on which the IAASB is seeking feedback are set out below followed by the “Other matters” section of our letter, which includes comments on other matters within ED-ISRS 4400 for which we are suggesting enhancements or clarifications.

## Overall question

### Public interest issues addressed in ED-4400

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

We support, in particular, the modernizations with respect to:

- ▶ The expansion of the scope of the standard to include non-financial subject matters
- ▶ The removal of the requirement to restrict the agreed-upon procedures report (AUP report) to those parties that have agreed to the procedures to be performed

Both of these changes enhance the practitioner’s capability to perform an agreed-upon procedures engagement in the current environment, which involves both regulatory requirements for agreed-upon procedures engagements in certain jurisdictions and emerging demands for assurance or related services engagements on new subject matters (e.g., in relation to entities’ use of blockchain technology or cryptocurrencies). However, we do believe that further enhancements to the standard may be needed to effectively support these modernizations (refer to our responses to Q6 and Q8 for further comments).

With respect to the other public interest issues listed in Section 3-A of the Explanatory Memorandum (EM), we do not agree that ED-ISRS 4400 appropriately clarifies the role professional judgment plays in an AUP engagement (refer to our response to Q2 for further comments).

We support the update of ED-ISRS 4400 to the IAASB’s clarity format, which improves the overall readability and understandability of the standard. With respect to the specific clarifications identified in Section 3-A of the EM, we are supportive of these except for the wording of the required statements in the AUP report when the practitioner is not required to be independent (refer to our response to Q4 for further comments).

## Specific questions

### Professional judgment

**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?***

No, we do not believe that the definition of professional judgment or the discrete requirement to apply professional judgment appropriately reflects the role professional judgment plays in an AUP engagement.

In an AUP engagement, the procedures are required to be objective in nature such that the different practitioners performing the same procedures are expected to arrive at the same findings. This means professional judgment should not be a factor in the execution of the procedures. We believe that including a definition, as well as a requirement to apply professional judgment in “conducting the engagement”, has the unintended consequence of conveying the exact opposite (i.e., that professional judgment is required in performing the procedures). We therefore believe that both the definition of professional judgment and the requirement in paragraph 18 should be removed from ED-ISRS 4400.

We however agree that professional judgment is applied in various aspects of an AUP engagement. In particular, professional judgment can be critical to engagement acceptance decisions (i.e., to make the judgments required by paragraphs 20(b) and 21 of ED-ISRS 4400). We also agree with the other examples in paragraph A15 of when professional judgment may play a role. Instead, our disagreement is with the approach taken to require the application of professional judgment holistically for the entire engagement. The meaning of the qualifier of “taking into account the circumstances of the engagement” is not clear and likely subject to misinterpretation. We believe a better approach, which would be less prone to the unintended consequences we have described, is to specifically emphasize the role of professional judgment in the application material where its application is of most relevance and importance. For example, we believe that the application material in paragraph A16 is most relevant, and would be better placed, to support the requirement in paragraph 20(b) related to engagement acceptance.

We would not oppose an overarching statement in the introduction or application material of ED-ISRS 4400 that explains that professional judgment is applied in determining whether to accept AUP engagements and in determining certain courses of action during the engagement. However, such a statement should be contrasted with the fact that an AUP engagement involves performing procedures that are required to be objective in nature such that different practitioners performing the same procedures are expected to arrive at the same findings.

We also believe that ED-ISRS 4400 could specifically emphasize that compliance with the fundamental principle of professional competence and due care is required in the conduct of an AUP engagement. In particular, refer to our suggestion in the Other matters section of this letter to require practitioner action when the practitioner becomes aware of facts or circumstances that suggest procedures are inappropriate during course of engagement.

### **Practitioner’s objectivity and independence**

**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?***

Yes, we agree with not including a precondition for the practitioner to be independent when performing AUP engagements.

Notwithstanding the fact that independence may not be required by the relevant ethical requirements, we agree that the practitioner's independence may be required or expected as a term of the engagement. For the avoidance of doubt, we believe that the terms of the AUP engagement should be required to include the status of the practitioner's independence using wording consistent with the statement about the practitioner's independence that will be included in the AUP report (refer to the Other Matters section of our letter for further comments).

***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.***

First, we find the table in paragraph 22 of the EM to be clearer than the standard in regard to the possible independence scenarios and the required reporting for each of the scenarios. In particular, it is not helpful that the independence reporting requirements are split between paragraph 30(f) and 30(g), which makes it difficult to understand how the requirements are expected to be operationalized together.

When the practitioner is independent, we are supportive of the new requirement for the practitioner to include a statement in the AUP report asserting their independence and the basis therefor. We strongly believe that independence should not be asserted without also including the underlying basis, as the basis may vary depending on the relevant ethical requirements in the jurisdiction or the terms of the engagement. However, we do not agree with the proposals that address reporting about the practitioner's independence when the practitioner is not required to be independent and is not prepared to assert their independence voluntarily. The paragraphs that follow explain our rationale.

When independence is not required by the relevant ethical requirements or by the terms of the AUP engagement, we agree that the practitioner should not be required to make an independence determination. We have this view not only because of the complexity that may be involved in determining of independence, but also because, in these circumstances, the independence requirements that the practitioner is to measure their independence against may not be known or defined.

In particular, the IESBA Code of Ethics does not define independence in the context of an AUP engagement. Accordingly, when the IESBA Code of Ethics comprises the relevant ethical requirements for an AUP engagement, we do not believe that it would be appropriate for the practitioner to be required or otherwise expected to make an independence determination. For the same reasons, we also do not believe it is appropriate for the practitioner to determine that they are "not independent".



For example, under the IESBA Code of Ethics, it is possible for the practitioner to be independent in accordance with the requirements for assurance engagements but not independent in accordance with the requirements for audit engagements. Whether the practitioner is expected to disclose that they are “not independent” in these circumstances is not clear.

Regarding the reporting requirements when independence is not required for the AUP engagement (and the practitioner is not voluntarily asserting their independence), we believe that the proposal to simply require a statement that “the practitioner is not required to be independent” is subject to misinterpretation by users. This statement will inappropriately allow users to make their own assumptions about the status of the practitioner’s independence. It is unreasonable to expect a user to understand the reporting scenarios in ED-ISRS 4400 and know that, if the practitioner was independent, the AUP report would have an explicit statement to this effect. At a minimum, we believe that the statement that “the practitioner is not required to be independent” needs to be clarified and enhanced to avoid the possibility of users inappropriately assuming the practitioner is independent.

Our recommendation is to expand the required statement in the AUP report to be “ISRS 4400 does not require us [the practitioner] to be independent to perform this engagement and, accordingly, we neither have assessed nor formed a conclusion regarding our independence”. We are further recommending that this requirement also replace the extant and ED-ISRS 4400 requirement for the practitioner to disclose that they are “not independent”. Our rationale is as follows:

- ▶ Our suggested requirement will result in a consistent statement in the AUP report when independence is not required
- ▶ We believe the wording we have suggested will more explicitly convey to users that they cannot make any assumptions about the practitioner’s independence
- ▶ The requirement to disclose when the practitioner is “not independent” is not capable of being consistently applied without an explicit basis in the standard or in relevant ethical requirements against which this determination is to be made

## Findings

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

Yes, we agree with the term “findings” and the related definitions and the application material contained in the standard.

## Engagement acceptance and continuance

### **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?***

Yes, the requirements and application material that address engagement and acceptance are appropriate. However, we suggest a few enhancements. Paragraph 20(b) and 21 involve important

judgments by the practitioner. As we suggest in our response to Q2, we believe paragraph A16 should be relocated to support the requirement in 20(b). Further, we believe that paragraph 20(b) should refer to “expected procedures,” which is consistent with the reference to procedures in paragraph 20(a).

In regard to paragraph 21, we believe, at a minimum, a reference to paragraph A28 should be added to this requirement and consideration should be given to expanding this guidance in light of the expansion of the scope of the standard to non-financial subject matters. In particular, we do not believe A28 adequately emphasizes the importance of the auditor’s consideration of the appropriateness of the subject matter independent of the appropriateness of the procedures to be applied to the subject matter. When the subject matter of AUP engagement is non-financial, we believe an additional required pre-condition in paragraph 20 may be warranted that the subject matter is appropriate, which could be further supported by application material adapted from paragraphs A40-A45 of ISAE 3000 (Revised). Regardless, it would be useful for the application material to explain that the judgment regarding the appropriateness of the procedures involves determining that the procedures will not result in a report that may convey misleading information or be misunderstood by users.

As the IAASB finalizes ED-ISRS 4400, we also encourage the IAASB to consider the guidance that is being developed in regard to Extended External Reporting and the possible applicability to AUP engagements, including to assist in enhancing the application material to paragraph A21. Although we understand that this guidance is being developed to support assurance engagements in accordance with ISAE 3000 (Revised), practitioners are facing new demands to perform engagements on emerging subject matters, which are being driven by emerging and evolving needs of users. In dealing with the demands, there are circumstances when an AUP engagement may be sought on an emerging subject matter where the engaging party’s understanding of the subject matter and of the intended users’ needs may still be developing. In these circumstances, certain of the suggested actions in A26, as well as more involved efforts by the practitioner to understand the subject matter and the purpose of the engagement, may be of greater importance to the practitioner’s determination of whether the pre-conditions of the AUP engagement have been met.

### **Practitioner’s expert**

**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 support the addition of requirements to address the use of a practitioner’s expert in an AUP engagement, including in regard to referring to an expert in the AUP report. However, the wording of paragraph 28 as drafted connotes an outsourcing arrangement and it is not clear that the expert’s role is to assist the practitioner. Accordingly, we suggest the following revised wording for paragraph 28: “When the practitioner involves a practitioner’s expert to assist in performing the agreed-upon procedures, the practitioner shall:”

### **AUP report**

**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 with the removal of the requirements to restrict the report and to leave the determination of whether restrictions are necessary to the practitioner in the circumstances of the engagement. However, we do not believe the application material in paragraph A43 is sufficient or useful to assist the practitioner in determining whether restricting the report is appropriate in the circumstances of the engagement. We believe a restriction may be appropriate when the practitioner believes there is a greater risk for users other than the intended users to:

- ▶ Misunderstand the agreed-upon procedures or the purpose of the engagement
- ▶ Interpret the findings as providing assurance.

In these cases, it is likely in the public interest to restrict the use or distribution of the report.

It would also be useful to indicate in the application material that any report restrictions may be specified in the terms of the engagement or communicated to the engaging party through other means. However, it is important not to imply that restricting the report is subject to negotiation with the engaging party. It is the practitioner's decision whether to restrict the use or distribution of the report.

***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 generally support the content and structure of the proposed AUP report. Our biggest concern relates to the required statements about the practitioner's independence when the practitioner is not required to be independent as expressed in our response to Q4. We have the following further comments and suggestions for clarifications to the requirements, application material or illustrations:

- ▶ Paragraph 30(c): "Subject matters" should be singular.
- ▶ Paragraph 30(f):
  - ▶ Paragraphs 30(f) and 30(g) should be moved to before paragraph 30(e) so that the ordering of the requirements mirrors the ordering of the statements in the illustrative reports.
  - ▶ It would be helpful if paragraph 30 (f)(i) had application material that describes the meaning of "basis". This could be achieved by referencing or using the examples in paragraph A13 (e.g. national ethical codes, laws or regulations, the firm's policies and procedures or the terms of the engagement).
  - ▶ Similarly, we suggest including application material to explain what "other reasons" in paragraph 30 (f)(i) may include.

- ▶ The requirement in paragraph 30(f)(i) does not require a statement that the practitioner is required to be independent; however, Illustration 1 of the AUP report includes the phrase “The terms of our engagement require us to be independent...”. We suggest removing the first phrase of the statement in Illustration 1 so that the statement in the illustration aligns to the requirement.
- ▶ Paragraph 30(i)
  - ▶ We suggest expanding paragraph 30(i) to require the description of procedures to include materiality limits, if applicable.
  - ▶ It may be useful to require or acknowledge in the application material that when circumstances impose restrictions on the performance of the procedures (and those restrictions are considered appropriate), the restrictions are described in the AUP report. For example, when the agreed-upon procedures are set forth in regulation and a procedure is not applicable in the circumstances of the particular engagement, the practitioner may describe the reason that the procedure was not performed in the AUP report.

## Request for general comments

**Q10.** *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 not in reviewing the ED-4400.*

No comment.

- (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 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 believe that an effective date for AUP engagements for which the terms of engagement are agreed at least 18 months after approval of the final revised standard would provide a sufficient period to support effective implementation. However, we are not in favor of an effective date that falls in March, as the annual training period for our practitioners is generally in the April to June timeframe (and is later in the calendar year

for some jurisdictions). We do not believe a shorter period between the approval of the final ISRS and the effective date is practicable. We agree earlier application should be permitted.

## Other matters

### Agreeing the terms of engagement

We have the following suggestions for enhancing the requirement in paragraph 22 relating to the agreeing the terms of an AUP engagement:

- ▶ We suggest combining paragraph 24 with paragraph 22 and rewording paragraph 22 to be “The practitioner shall agree the terms of the agreed-upon procedures engagement with the engaging party and record the agreed terms of engagement in an engagement letter or other suitable form of written agreement. These terms shall include the following:”
- ▶ As we express in our response to Q4, we believe the terms of engagement should be required to include the status of the practitioner’s independence using wording consistent with the statement about the practitioner’s independence in the AUP report; we recommend updating paragraph 22(d) accordingly.
- ▶ We suggest expanding the requirement in paragraphs 22(f) to require the description of procedures to include materiality limits, if applicable.
- ▶ We note that there is no supporting application material for the requirement in paragraph 22. We have the following suggestions for guidance:
  - ▶ As we express in our response to Q8, we believe that if the practitioner intends to restrict the use or distribution of the report, this intention may be specified in the terms of engagement. In fact, if the practitioner has made the decision to restrict the report at the time the terms of engagement are agreed, we believe that the IAASB should consider requiring the restriction to be included in the terms of the engagement.
  - ▶ It would be useful to provide guidance about the effect on the terms of the engagement when the responsible party is different from the engaging party.
  - ▶ We suggest application material to paragraph 22(f) to clarify that the nature, timing and extent of procedures are typically specified in the terms of the engagement in sufficient detail such that the assurance practitioner will not be required, during the course of the engagement, to exercise professional judgment in determining or modifying the procedures to be performed. This could be a way to appropriately reinforce that the execution of the procedures should not require the use of professional judgment in an AUP engagement.

Regarding the illustrative engagement letter included in Appendix 1, we believe it would be more helpful to have an example engagement letter where there is an intended user to provide an example as to how the intended user is addressed in the engagement letter.

In addition, it is our view that the requirement in paragraph 23 to update the terms of the engagement when procedures are modified during the course of the engagement is unnecessarily restrictive. While we agree that updates to procedures should be agreed in writing, there should be flexibility in the form of the documentation that is acceptable for the purpose of agreeing modifications to the procedures. We believe amending the terms of the engagement, specifying the changes in the letter of representations or using another appropriate written format may all be acceptable forms of documentation for such changes. In particular, it should be permissible to obtain the engaging party's agreement to modifications to procedures through the use of a letter of representations.

### **Performing the agreed-upon procedures**

We believe the requirement in paragraph 26 is incomplete as it does not retain the extant requirement to "use the evidence obtained as the basis for the report". We recommend expanding the requirement in paragraph 26 to include "and obtain evidence as the basis for the findings in the agreed-upon procedures report". We also believe the practitioner should be required to capture all findings and include all findings in the report. This could be a way to appropriately reinforce that the execution of the procedures should not require the use of professional judgment in an AUP engagement, including that the practitioner should not judgmentally exclude any findings.

### **Letter of representations**

We support not requiring a letter of representations and leaving this to the judgment of the practitioner in accordance with paragraph 27. However, regarding the example in paragraph A34, it is our view that, by referring to obtaining a letter of representation that the engaging party has disclosed to the practitioner its knowledge of identified or suspected fraud or non-compliance with laws and regulations, ED-ISRS 4400 may be setting the unintended expectation that a letter of representation is always necessary. We recommend removing this as an example and providing additional guidance to assist the practitioner's consideration of whether a letter of representations is necessary, including examples of circumstances when a letter of representation may be appropriate to obtain. As one example, the practitioner may consider it necessary to request written representations from the responsible party when the responsible party differs from the engaging party. (See also our comment above regarding the use of the letter of representations to agree modifications to the procedures performed).

### **Awareness of facts or circumstances that suggest procedures are inappropriate during course of engagement**

During the course of the engagement, the practitioner may become aware that the procedures or related findings are not appropriate for the purpose of the engagement, are misleading or cannot be described objectively such that the pre-conditions of the engagement are called into question. We believe a requirement, or at least application material, should be added to ED-ISRS 4400 to require or encourage the practitioner to discuss the matter with the engaging party and take appropriate action in the circumstances.

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We would be pleased to discuss our comments with members of the IAASB or its staff. If you wish to do so, please contact Kurt Hohl, Deputy Director, Global Professional Practice (Kurt.Hohl@eyg.ey.com).

Yours sincerely,

*Ernst + Young Global Limited*