



# Grant Thornton

**March 29, 2017**

International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, NY 10017

Antony Nettleton  
Global Leader – Assurance Services  
**Grant Thornton International Ltd**  
Grant Thornton House  
Melton Street, Euston Square  
London, NW1 2EP  
United Kingdom  
T +1.312.602.8740  
F +1.630.886.1399  
[www.GTI.org](http://www.GTI.org)

Via IAASB website at [www.iaasb.org](http://www.iaasb.org)

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

Dear Board Members and Staff:

Grant Thornton International Ltd appreciates the opportunity to provide input on the International Auditing and Assurance Standards Board's ("IAASB") Discussion Paper – Exploring the Demand for Agreed-Upon Procedures and Other Services and the Implications for the IAASB's International Standards ("Discussion Paper").

We respectfully submit our detailed responses to the IAASB's Discussion Paper, which are enclosed. We would be pleased to discuss our comments with you. If you have any questions, please contact Sara Ashton at [sara.hm.ashton@uk.gt.com](mailto:sara.hm.ashton@uk.gt.com) or at +44 207 728 2236.

Sincerely,

Antony Nettleton  
Global Leader – Assurance Services  
Grant Thornton International Ltd

Enc Responses to request for comments

# Responses to the Discussion Paper

The following provides our input in response to the IAASB's Discussion Paper: *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards* (Discussion Paper).

## QUESTIONS

### THE ROLE OF PROFESSIONAL JUDGMENT AND PROFESSIONAL SKEPTICISM IN AN AUP ENGAGEMENT

**Q1. Results for 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 why not?**

The views expressed in the Discussion Paper concerning the role of professional judgment in an AUP engagement in the context of performing that AUP engagement with professional competence and due care are generally consistent with our views. In connection with a duty of care, whilst we are of the belief that the practitioner should not knowingly allow or perform procedures in an AUP engagement that are known to be misleading, we do not believe that it is the sole responsibility of the practitioner to exercise judgment over the sufficiency of the procedures. This responsibility lies with all parties to the engagement. Further, as part of that duty of care, the practitioner should exercise professional skepticism, not only in developing the AUPs but also in the performance of those procedures by being alert for matters for which the practitioner may have additional responsibilities under law, regulation or relevant ethical requirements.

ISRS 4400 currently requires the practitioner to comply with the provisions of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics. This requirement may be too restrictive in light of the fact that some AUP engagements do not require a professional accountant to perform the engagement, for example, where the nature and timing of the procedures are sufficiently clear and precise. We are of the view that a provision similar to that in International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements other than Audits or Reviews of Historical Financial Information* may be more appropriate. This allows for compliance with professional requirements other than the IESBA Code of Ethics provided such requirements are at least as demanding as those in the IESBA Code of Ethics.

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

We would caution against including requirements regarding professional judgment or professional skepticism in a revised standard as this may put undue emphasis on this matter. However, given the subjective nature of the exercise of professional judgment and professional skepticism, we are of the view that guidance incorporating how both may be exercised in an AUP engagement would be helpful.

**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?**

We understand the benefit to, and desire of, stakeholders for independent practitioners to be engaged to perform AUP engagements, especially when such engagements are at the request of governments or other local or national authorities. However, we believe that to require the practitioner to be independent in order to perform an AUP engagement would not be in the public interest. It may lead to a reduction in competition by essentially preventing certain practices from being able to perform these services.

We are of the view that it would be appropriate to align the independence requirements in ISRS 4400 with those of ISRS 4410 (Revised), Compilation Engagement, which does not require the practitioner to be independent to perform such an engagement unless the national rules of conduct have differing requirements.

Irrespective of whether the distribution of the report is restricted, we agree with the position presented in the Discussion Paper that the existing approach in ISRS 4400 of requiring a statement that the practitioner is not independent does strike the right balance. However, we are also of the view that ISRS 4400 should require that the statement include the nature of the matter or relationship that causes the practitioner not to be independent and that the statement has the appropriate prominence within the AUP report.

**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?**

In our experience, the biggest challenges encountered in performing AUP engagements are responding to requests to perform procedures using terminology that is unclear and potentially misleading; and reporting the findings of the engagement using terminology that is clear and does not imply that a level of assurance has been provided.

We believe that prohibiting specific terms may have unintended consequences. We prefer an approach where the practitioner would not accept the engagement where the procedures convey a level of assurance associated with an audit or with a review engagement. We recommend that application material be developed to provide guidance to practitioners around the terms and phrases that should not be used in the performance of an AUP engagement. For example, the guidance could provide details of terms that have a different meaning in everyday use; terms that have a specific technical use; and phrases that are not sufficiently specific, such as "no exceptions noted." With respect to reporting, we believe the practitioner should be required to report in a factual manner. Guidance on the types of terms that are often appropriate to use would also be helpful.

We do not believe that restricting the distribution of the AUP report would alleviate issues with unclear and misleading terminology, as this could be equally unclear and misleading to those for whom the report is intended, and often the use of such terminology is requested by those that are a party to the AUP report. In this respect, there may also be an opportunity to inform those stakeholders for whom the AUP report is intended of terms that may be considered unclear or misleading, possibly through outreach in conjunction with national auditing standard setters.

#### **AUP ENGAGEMENTS ON NON-FINANCIAL INFORMATION**

**Q5. What are your views regarding clarifying 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?**

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

In practice, firms already perform AUP engagements on non-financial information using ISRS 4400 as a guide. We are of the view that ISRS 4400 should recognize that fact and could then provide useful guidance for engagements on non-financial information. In some cases, where the subject matter is associated with financial information or is derived primarily from the entity's accounting system, it is only an incremental step from performing an AUP engagement on financial information to performing an AUP engagement on non-financial information. However, AUP engagements may also relate to subject matters requiring specialist skills outside of those typically possessed by a practitioner (recognizing that different practitioners may have different skillsets). Careful consideration should be given as to whether it is appropriate for such an AUP engagement to be accepted. This consideration should encompass not only an assessment of the sufficiency of the firm's competence in the subject matter, but also when deploying the engagement team, the sufficiency of the competence of those practitioners or specialists available to form part of the team.

We are of the view that requirements developed regarding AUP engagements on non-financial information should be focused on developing criteria that should be applied by firms in determining whether an AUP engagement should be accepted and not on limiting the types of

subject matter on which a non-financial information AUP engagement could be performed upon.

We would also suggest that the types of procedures that could be performed in an AUP engagement, currently detailed in paragraph 16 of ISRS 4400, also include re-performance as an appropriate type of procedure.

#### **USING THE WORK OF AN EXPERT**

##### **Q7. Do you agree with the Working Group's suggestions for improvements to the illustrative AUP report?**

We are of the view that ISRS 4400 should address whether it is appropriate to use an expert in an AUP engagement and, in particular, should provide for the use of an expert in an AUP engagement concerning non-financial information. However, care needs to be exercised when defining the situations in which the use of an expert is appropriate in an AUP engagement. For example, if the subject matter of the engagement is sufficiently technical that an expert is needed to perform the majority of the procedures, it may not be appropriate for the practitioner to accept such an engagement. Further, the procedures to be performed in the engagement must be capable of being developed, understood and evaluated by the practitioner. This will avoid the development of vague procedures on which it is not possible to report objectively; or the acceptance of an AUP engagement where the subject matter is too complex. When an expert is employed in an AUP engagement, considerations similar to those required by ISAE 3000, should apply.

#### **FORMAT OF THE AUP REPORT**

##### **Q8. What are your views regarding the Working Groups suggestions for improvements to the illustrative AUP report?**

We agree with the suggestions proposed in the Discussion Paper for the findings in an AUP engagement to immediately follow the procedures performed, whether or not in a tabular format. Irrespective of the number of procedures performed and the resulting length of the report, we are of the view that this will make the report easier for readers to understand.

We would also suggest that an approach similar to the illustrations provided in the IAASB's recently issued auditor reporting standards<sup>1</sup> would be helpful by providing examples of different AUP reporting scenarios. This could include providing example procedures and findings on those procedures using appropriate terminology and phrases; and providing an example of a statement to be included in the AUP report where the practitioner is independent and an example of where the practitioner is not independent.

---

<sup>1</sup> For example, ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*; and ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

**AUP REPORT RESTRICTIONS – TO WHOM THE AUP REPORT SHOULD BE ADDRESSED**

**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?**

**AUP REPORT RESTRICTIONS – 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.**

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

We believe that restriction on use and restriction on distribution should be considered separately and that restriction of distribution presents the larger challenge as discussed below.

As it relates to restriction of distribution, there are both benefits and drawbacks to restricting the distribution of a report on an AUP engagement. If distribution of the AUP report is too restricted, for example to only those who are a party to the engagement letter, it may lose its usefulness and flexibility in different scenarios. Conversely, an AUP engagement that is widely distributed may become too high a risk for the practitioner to accept because, depending on the subject matter and the procedures performed, the engagement report may be misunderstood by the users of that report. We are of the view that an appropriate balance needs to be struck.

We therefore support the second option presented in the Discussion Paper in respect of restricting the distribution of the AUP report. We believe that an approach that neither requires nor precludes the practitioner from including restrictions on the AUP report would provide sufficient flexibility.

ISRS 4400 could then provide guidance on matters that the practitioner may want to consider when determining how and if to restrict distribution of the AUP report, including:

- Consideration of the subject matter on which the AUP engagement is being performed and the type of procedures being performed. Some subject matters may lend themselves to restriction whereas procedures that simply require the agreement of information to an underlying report may be appropriate for wider distribution.
- Whether local law or regulations require restriction of the report
- Whether limiting the distribution of the AUP report to those parties identified in the engagement letter, rather than requiring parties to be signatories to the engagement letter, may provide an appropriate level of restriction.

As it relates to restriction on use, we are of the view that the third option, requiring "the AUP report to include a statement to the effect that the report is intended solely for the specific users and may not be suitable for any other purposes...;" could be adapted. The statement could be used to indicate the purpose for which the AUP report was prepared (not specifying the report is intended for specific users as suggested in the document) and to indicate it may not be suitable for another purpose. Alerting users in this way could also be used in conjunction with the restriction on distribution, above.

#### **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?**

We agree with the view presented in the Discussion Paper that any recommendations made in connection with an AUP engagement should be clearly distinguished from the factual findings. Our preference would be for any recommendations to be in a separate report. We would also consider a separate section in the AUP report or an Appendix to the AUP report acceptable, provided it is sufficiently delineated from the factual findings.

It is important that where recommendations are provided, clarity over the scope of the AUP engagement and the results of those procedures is retained in the AUP report. Because recommendations are by-products of the engagement, it should be clearly communicated that the practitioner was engaged to perform an AUP engagement, that the supplementary recommendations were identified as a result of performing those procedures and the practitioner was not engaged to identify and make such recommendations.

Proposed updates to ISRS 4400 should provide guidance for practitioners in the form of application material. Such application material should indicate that reports including factual findings and recommendations are not expected to be prevalent. It should also emphasize that clarity in communicating what type of engagement or procedures the practitioner was engaged to perform and report on. The application material could also indicate what types of report presentations would not be appropriate.

Consideration should also be given as to how explicitly permitting a report that includes reporting the results of the engagement and recommendations identified as a result of performing that engagement, might impact other engagements or reporting in accordance with International Standards on Auditing.

**OTHER ISSUES RELATING TO ISRS 4400**

**Q13. Are there any other areas in ISRS 4400 that need to be improved to clarify the value and limitations of the AUP engagement? If so, please specify the area(s) and your views as to how it can be improved.**

We have not identified any other areas in ISRS that need to be improved.

**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?**

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

We agree with the proposals in the Discussion Paper that focus should continue to be on the current projects on the IAASB Work Plan for 2017-2018, which incorporates revisions to ISRS 4400 as a project commencing in 2017.

Further, in respect of multi-scope engagements, we are of the view that further outreach is needed to understand what the specific issues are with respect to performing such engagements. If interim guidance is considered appropriate, national auditing standard setters may be better placed to issue any non-authoritative guidance required. This could include developing a "road map" that would help practitioners determine which standards or other local reporting requirements an engagement will be governed by.