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Submitted electronically at www.iaasb.org, and to MattWaldron@iaasb.org

Mr. Matt Waldron
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Dear Matt

SAICA COMMENT LETTER ON 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

The South African Institute of Chartered Accountants (SAICA) is the home of chartered accountants in South Africa – we currently have over 41,000 members from various constituencies, including members in public practice ($\pm 30\%$), members in business ($\pm 50\%$), in the public sector ($\pm 5\%$), education ($\pm 2\%$) and other members ($\pm 13\%$). In meeting our objectives, our long-term professional interests are always in line with the public interest and responsible leadership. SAICA is currently the only professional accountancy organisation that has been accredited by the Audit Regulator in South Africa, the Independent Regulatory Board for Auditors (IRBA).

In response to your **Discussion Paper: Exploring the Demand for Agreed-Upon Procedures Engagements and Other Service, and the Implications for the IAASB's International Standards (Discussion Paper)**, please find included the comments prepared by SAICA.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Willie Botha (willieb@saica.co.za) or Hayley Barker Hoogwerf (hayleyb@saica.co.za).

Yours sincerely

Signed electronically

Willie Botha
Senior Executive – Assurance and Practice

INTRODUCTION

1. The International Auditing and Assurance Standards Board (IAASB) has recognised that as the demand for Agreed-Upon Procedures (AUP) engagements continues to grow, there is a need to explore the implications for standard-setting and, in particular, the extent to which users and practitioners find existing requirements and guidance helpful.
2. AUP engagements are frequently used in South Africa in relation to certain identified information needs of regulators, grantors, funding bodies, creditors and other entities, as audit exemption thresholds prompt especially stakeholders in smaller entities to look for alternative services to an audit. Often Small and Medium Practices (SMPs) are engaged to perform AUP engagements.
3. SAICA believes it is appropriate that the IAASB consider revising ISRS 4400 in response to the broader calls for a clearer and more robust standard in light of the increase in demand for AUP engagements and the fact that the standard needs to be updated to the Clarity¹ format.

SAICA'S APPROACH TO RESPOND

4. SAICA's approach to informing our members about the Discussion Paper and its contents, and to gather information to inform our comment letter can be summarised as follows:
 - a. A SAICA internal working group studied and debated the Discussion Paper and prepared initial thoughts and input pertaining to the questions that have been posed (questions 1 to 15). The internal working group proceeded to prepare course material for the *SAICA Discussion Session: AUP Engagements*, which was presented to members on 15 February 2017. Furthermore, an *online survey*² (the SAICA survey) was developed to accompany the course material and facilitate members' input on the Discussion Paper.
 - b. The *SAICA Discussion Session: AUP engagements* was attended by 116 members (16 face-to-face and 100 via webcast). This was an opportunity for members to voice their opinions and to raise any issues and other concerns as may be necessary. Attendees were then guided through the SAICA survey and given the opportunity to complete the survey during the session. The webcast recording was made available to all members after the discussion session³.
 - c. We issued a communication requesting SAICA members to provide their input on the Discussion Paper by means of the SAICA survey. The survey link was sent to all members, as well as certain targeted groups, including certain SAICA committees.
 - d. The IRBA hosted a consultation forum/task group on the Discussion Paper, which SAICA attended. The consultation forum/task group was also attended by representatives from The Institute of Internal Auditors South Africa (IIASA), The Auditor-General of South Africa and practitioners from various audit firms.
 - e. We requested members of the SAICA Assurance Guidance Committee (AGC) and National Small and Medium Practices Interest Group (NSMP-IG) to provide additional inputs during a comment letter consultation forum/task group meeting held on 22 March 2017 which was attended by representatives from the IRBA, The South African Institute of Professional Accountants (SAIPA) and practitioners from various firms.

¹ Revised ISRS 4400 in the Clarity format would broadly comprise of the points identified in footnote 4 of the Discussion Paper on page 7.

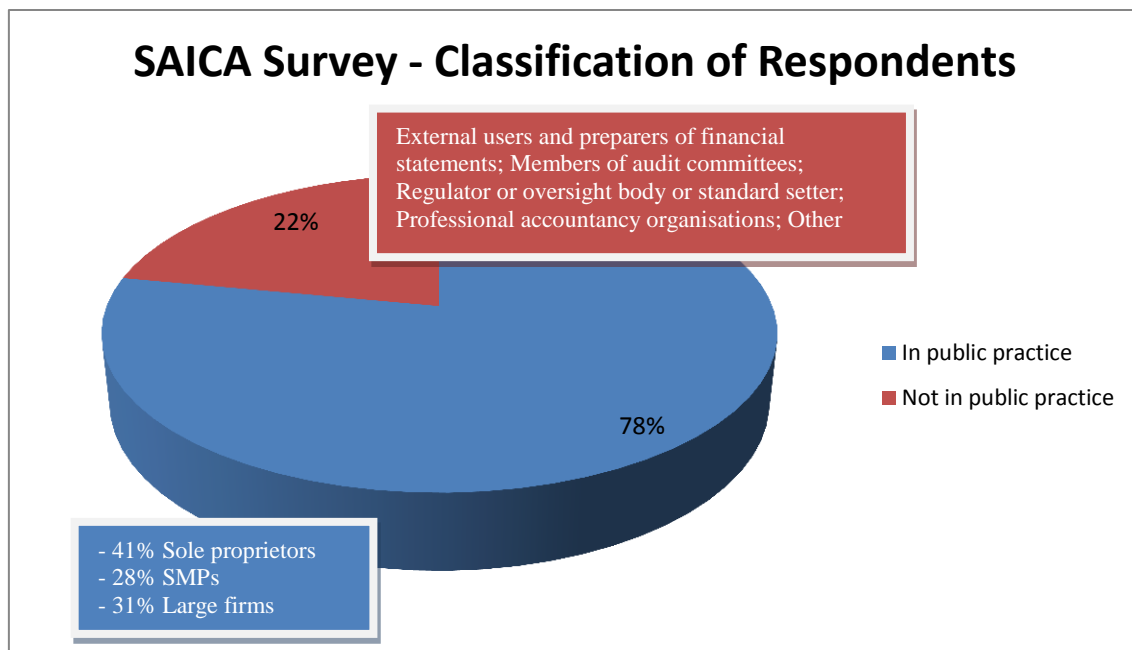
² The SAICA survey has been included in Appendix 1 to this document.

³ The webcast can be accessed at: http://results.antfarm.co.za/saica/February_2017_01

5. Our interactions with members were targeted as follows (this is the description that was used in our communications to members):
 - a. In its Discussion Paper, the IAASB recognises that AUP engagements are frequently requested and used by various stakeholders including regulators, funding bodies and other creditors and the demand for AUP engagements is on the rise;
 - b. The IAASB is seeking input relating to practitioners and users views on what is needed from a standard-setting point of view to meet the user needs;
 - c. Therefore, SAICA is inviting all interested parties to attend and participate, including practitioners and members in business that make use of AUP engagements.

Results of the SAICA survey

6. The SAICA survey was completed by 81 respondents, 77 SAICA members and 4 others. 52% of the **survey respondents** are also registered with the IRBA as Registered Auditors (RAs). As indicated below the majority of respondents (78%) were members in public practice.



7. In the analysis above, the following meaning is attributable to the relevant terms:
 - a. Large Firms are practices with more than 10 partners;
 - b. SMPs: Small and Medium Practices, with 2 to 10 partners.
8. Throughout this comment letter we present the results from the survey by referring to “**survey respondents**”. The survey results have not been analysed statistically and cannot be extrapolated. The results are presented as perceptions and views that have been observed, and although not necessarily representative of a general or common view, provide some insights into the issues and possible actions discussed in the Discussion Paper.
9. As a general question, the SAICA survey requested respondents to rate the extent to which they believe clients understand the difference between an AUP engagement and an audit, review, other assurance or related services engagement. 62% of **survey respondents** suggested, to a greater or lesser extent that clients tend not to understand the difference and that practitioners

had to intervene or explain the difference. This result highlights the importance of the IAASB project to revise ISRS 4400.

10. Overall, **survey respondents** indicated the following priority in relation to the eight possible modifications to ISRS 4400 as presented in paragraph 8 of the Discussion Paper (from the highest priority to the lowest priority, 1 to 8). Each of these areas is addressed as part of our comments to the individual questions included in the Discussion Paper.
1. Recommendations made in conjunction with AUP engagements
 2. Using the work of a practitioner's expert
 3. AUP report restrictions
 4. Format of the AUP report
 5. The independence of the professional accountant
 6. AUP engagement on non-financial information
 7. The role of professional judgement and professional skepticism in an AUP engagement
 8. Terminology in describing procedures and reporting factual findings in an AUP report

SAICA's COMMENTS

Our comments are presented in the sequence of the questions as they have been included in the Discussion Paper. We have responded to all 15 questions.

Question 1

Results from the Working Group's outreach indicate that many stakeholders are of the view that professional judgement 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 judgement in an AUP engagement? If not, what are your views on the role of professional judgement in an AUP engagement?

11. The vast majority of **survey respondents** (93%) agreed with the Working Group's view that the exercise of professional judgement is never suspended in an AUP engagement, but that the exercise of professional judgement may be limited to its exercise in the context of professional competence and due care.
12. **Survey respondents** that did not agree with the above view, indicated to the notion that depending on the nature of the AUP engagement, professional judgement would, in most cases be required at some level in conducting the engagement. AUP engagements are often generic in nature, particularly when requested by a regulator but since all clients' businesses are unique, professional judgement would play a role in applying the required procedures that may not be perfectly aligned to the client's business.
13. Overall, SAICA agrees with the Working Group's view that the exercise of professional judgement may be limited to its exercise in the context of professional competence and due care⁴. We believe that this is applicable to two stages of an AUP engagement namely, engagement acceptance and reporting.
14. Suggestions were also made that the exercise of professional judgement may be relevant when performing the agreed procedures as it relates to considering the accuracy and completeness of the records, documents, explanations and other information obtained. Also refer to our comments included in paragraphs 95(g)(iii) of this document.

⁴ Discussion Paper, paragraph 10

15. The Discussion Paper is comprehensive in addressing the role of professional judgement in the reporting on factual findings and this has therefore not been expanded upon in this document⁵. The sub-section below provides additional considerations in relation to engagement acceptance.
16. Furthermore, our consultations have indicated that the exercise of professional judgement is also applicable in assessing the competencies, capabilities and objectivity of a practitioner's expert, as well as evaluating the adequacy of that expert's work. This is expanded on in paragraphs 59 to 67 of this document.

Engagement Acceptance

17. The principle of professional competence and due care places obligations on the practitioner to maintain professional knowledge and skill at the required level and to act diligently in providing competent professional services⁶. This obligation is of particular relevance when a practitioner evaluates whether a request for an AUP engagement can be accepted or not.
18. For assurance engagements, the Assurance Framework⁷ includes a list of preconditions that must be satisfied before the practitioner can accept/continue an engagement⁸. These preconditions are expanded on in ISA 210⁹ in the context of an audit of financial statements.
19. ISRS 4410 (Revised)¹⁰ includes a specific list of items that need to be agreed upon with the client prior to accepting/continuing the compilation engagement.
20. Extant ISRS 4400 does not include similar considerations in the context of preconditions or list of specific items to be agreed upon. This standard merely requires that the parties to the engagement have a clear understanding regarding the agreed procedures and the conditions of the engagement¹¹.
21. Although an AUP engagement is not an assurance engagement, recent developments around emerging forms of external reporting have advanced thinking with respect to the broader concept of enhancing credibility and trust in different subject matters and subject matter information, using different types of professional services (that do not necessarily involve an assurance engagement). Credibility may be enhanced by an AUP engagement in the context that the users of the practitioner's report and the related subject matter information will derive a level of comfort / credibility from the work that was performed, who performed the work and the results of that work. To this end, there may be an opportunity to expand the concept of preconditions beyond that for assurance engagements and include preconditions for services other than assurance engagements, including AUP engagements.
22. A matter/scenario that was raised during our consultations, was around whether a practitioner can accept an AUP engagement where the practitioner does not have the necessary professional knowledge and skills required, but is able to outsource the engagement to a third party who has the necessary professional knowledge and skills. There were conflicting views on whether this would be acceptable or not.
23. The view for the acceptance of such an AUP engagement was that the practitioner is merely reporting on factual findings. To the extent that the practitioner is able to agree on the procedures to be performed, the terms of the engagement and report the procedures performed to enable the reader to understand the nature and extent of work performed, this would then be acceptable.

⁵ Discussion Paper, paragraph 13

⁶ Discussion Paper, paragraph 11

⁷ Amended International Framework for Assurance Engagements

⁸ Assurance Framework, paragraph 22

⁹ ISA 210, *Agreeing the Terms of Audit Engagements*, paragraph 6

¹⁰ ISRS 4410 (Revised), *Compilation Engagements*, paragraph 24

¹¹ ISRS 4400, paragraph 9

24. The view against the acceptance of such an AUP engagement was that the engagement lacks rational purpose and should therefore not be accepted.
25. The evaluation of the above scenario would also require the consideration of relevant ethical and quality control requirements regarding the competence of the engagement team, including whether the practitioner (the engagement partner) is satisfied that those who are to perform the engagement (i.e. the engagement team) collectively have the appropriate competence and capabilities.
26. Since extant ISRS 4400 does not provide for specific requirements and application material regarding precondition-type considerations, engagement level quality control and other engagement and acceptance considerations, the answer to this debate is not clear. It is therefore recommended that the revised standard specifically address such considerations.
27. The inclusion of considerations such as those highlighted in paragraph 12 of the Discussion Paper would also serve to address some of the matters identified above.

Question 2

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

28. 69% of the **survey respondents** agreed that revised ISRS 4400 should include requirements relating to professional judgement. 42% of the **survey respondents** in favour of the inclusion of requirements relating to professional judgement further indicated that there could be unintended consequences.
29. Possible unintended consequences highlighted by the **survey respondents** include:
 - a. The practitioner may have obtained evidence through the performance of other professional services to the client and, although not within the scope of the AUP engagement, this other evidence may appropriately or inappropriately factor into the professional judgement of the practitioner in formulating the factual findings and preparing the AUP report;
 - b. Professional judgement by its very nature is subjective. This could prompt a move away from the reporting of objectivity verifiable factual findings;
 - c. Professional judgement could be misinterpreted by the users of the practitioner's factual findings report if not properly contextualised and explained in the report (i.e. they may derive a level of comfort / credibility from the report that is not appropriate in the context of the practitioner's objectives in an AUP engagement);
 - d. Applying professional judgement may in certain instances result in the practitioner having to consider the need to perform additional procedures, which deviates from performing only the agreed-upon procedures and may raise questions regarding the interpretation of the factual findings which are supposedly linked to the agreed-upon procedures. Furthermore, additional procedures may translate into additional costs to the client;
 - e. Requirements relating to professional judgement may drive the wrong behaviour in that it could create an expectation for the practitioner to go beyond the intentions / needs of the requesting party as reflected in the agreed-upon procedures.
30. One benefit that can be seen from the inclusion of requirements relating to profession judgement is that it will place an obligation on the practitioner to consider whether the AUP engagement should in fact be accepted, taking into account any preconditions that may have to be met, as well as emphasising the importance of considering relevant ethical requirements of professional competence and due care in ensuring that a competent professional service is provided.

31. SAICA believes that professional judgement has a role to play in an AUP engagement. Although some unintended consequences have been identified, these could be mitigated by properly scoping the exercise of professional judgement for an AUP engagement. Therefore, requirements relating to professional judgement should be included in the revised ISRS 4400, but it should be limited. Also refer to our comment in relation to question 1, above.
32. Even if the Working Group decides that there is merit in addressing professional judgement in terms of conducting the AUP engagement, similar to the approach taken in ISRS 4410 (Revised)¹², the identified unintended consequences should be borne in mind in terms of being specific in relation to which matters / aspects of the engagement should or could appropriately require the exercise of professional judgement.
33. Lastly, professional judgement factor into reporting in terms of ensuring that the practitioner's report describes the purpose and work effort of the AUP engagement appropriately and in sufficient detail to enable the reader to understand the nature and extent of the practitioner's involvement and the factual findings.

Question 3

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

34. The results of the SAICA survey also indicated mixed views as is noted in the Discussion Paper¹³. 58% of **survey respondents** expressed the view that practitioners should be independent when performing AUP engagements.
35. A view from the group of **survey respondents** who did not indicate the preference for the practitioner to be independent was that an AUP engagement is performed for a specific purpose, based on an agreement between specific parties. The practitioner is required to include a statement in the report on factual findings if the practitioner is not independent of the client¹⁴. Therefore, for all practical purposes the practitioner is required to disclose any conflict of interest and a lack of independence to the engaging party upfront. The decision is then up to the engaging party as to whether they wish to continue with the engagement.
36. This group of **survey respondents** further indicated that it will be preferable to include a requirement in the revised ISRS 4400 for the inclusion of a clause in the engagement letter addressing any relationships and other matters that may bear on the practitioner's independence and, if applicable in the circumstances, that they have agreed to continue with the AUP engagement despite a lack of independence.
37. The majority of **survey respondents** (68%) indicated that their view regarding the practitioner's independence would not change if the AUP report is restricted to specific users. This group of **survey respondents** indicated that the AUP report restriction should not be driven by the independence of the practitioner.
38. In an engagement other than an assurance engagement, whether or not the practitioner is independent may have a perceived effect on the level of comfort / credibility that the user derives from the practitioners involvement, the work performed and the results of that work, but it is not a requirement in accordance with the purpose of the engagement and/or the information needs of the users. Independence is however a fundamental characteristic when the practitioner undertakes an assurance engagement with an objective of expressing an opinion or conclusion that enhances the degree of confidence of the intended users about the subject matter

¹² ISRS 4410 (Revised), paragraph 22

¹³ Discussion Paper, paragraph 18

¹⁴ ISRS 4400, paragraph 7

information. If independence is a specific requirement of the users in the circumstances of a specific engagement (other than an assurance engagement), then it needs to be specified, agreed to and complied with.

39. SAICA believes that the requirement for a statement to be made in the AUP report in the absence of the practitioner being independent¹⁵ should be retained. The revised standard could further expand on this, similar to the approach that has been applied in ISRS 4410 (Revised)¹⁶.
40. Furthermore, by clarifying in the engagement letter and in the factual findings report whether or not the practitioner performing the AUP engagement is independent may limit unintended consequences that may arise as a result of undue reliance being placed on the report (i.e. ensuring that the level of comfort / credibility that is derived from the AUP report is consistent with the purpose and circumstances of the particular AUP engagement).

Question 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?

41. 81% of **survey respondents** indicated that guidance on what constitutes unclear or misleading terminology would be useful and 68% of the **survey respondents** indicated that their view would not change if the AUP report is restricted to specific users.
42. It is our view that prohibiting unclear or misleading terminology may not be practical; however guidance on terminology that is considered to be unclear or misleading terminology would be useful.
43. 59% of **survey respondents** indicated that definitions are included in AUP reports that they have been involved with, for terminology that may be considered to be ambiguous or having a meaning that may vary for their everyday meaning. This mitigates the risk of users misinterpreting the reported findings and illustrates to some extent that practitioners and engaging parties already appreciate the need to clarify terminology in the interest of meeting the information needs of the intended users. However, this practice is not being consistently applied across AUP engagements.
44. SAICA is supportive of the suggestion in paragraph 26 of the Discussion Paper (second bullet point) as it relates to unclear or misleading terminology required by law or regulation. However, we suggest that the Working Group also consider the possibility or feasibility of expanding this in a broader context by requiring practitioners to discuss with the engaging party and the users any terms that are considered to be unclear or misleading and to seek alternative terms that would be more appropriate to the nature and purpose of an AUP engagement, and where alternative terms are not found, to include definitions of such terms in the AUP report (or alternatively that an assurance engagement as opposed to an AUP engagement would be more appropriate in the circumstances). Such discussions with the client and the outcomes will obviously also form part of the practitioner's engagement acceptance and continuance considerations.
45. Furthermore, SAICA believes that the revised ISRS 4400 should include a list of general terms that should either be prohibited or explained in the AUP report. Incorporating the approach suggested in paragraphs 27 and 28 of the Discussion Paper would provide some useful guidance on what constitutes unclear or misleading terminology. It is advised that if this approach is followed that a more comprehensive list of terms be developed and included in the revised ISRS 4400.

¹⁵ ISRS 4400, paragraph 7

¹⁶ ISRS 4410 (Revised), paragraph 21; A21

46. Due to the uniqueness of the environments in which the profession operates, some terms are country specific. In addition to the suggestion contained above, national professional bodies should be encouraged to develop guidance on unclear or misleading terminology specific to their jurisdiction.

Question 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?

47. 49% of the **survey respondents** indicated that they receive requests for AUP engagements relating to non-financial information, with the frequency of such requests being less than 12 requests a year.
48. The overwhelming majority of **survey respondents** (93%) were of the view that the revised ISRS 4400 should clarify that its scope includes non-financial information. Although extant ISRS 4400 is directed towards financial information, it does indicate that it may provide useful guidance for engagements regarding non-financial information¹⁷. Based on the feedback received during our consultation sessions, practitioners indicated that there are instances where they do not accept engagements where the subject matter is of a non-financial nature because of the lack of clarity around whether this is included within the scope of ISRS 4400.
49. The **survey respondents** indicated a preference that the revised ISRS 4400 should be flexible in allowing for the acceptance of engagements that vary in scope and nature, including financial information and non-financial information.
50. Calls for including non-financial information within the scope of the revised ISRS 4400 are consistent with developments taking place more broadly around enhancing credibility and trust in emerging forms of external reporting.
51. SAICA also attended the IAASB SMP Working Conference in Paris at the end of January 2017 and noted some comments from representatives from various jurisdictions that AUP engagements are the most popular alternative to assurance engagements – they are an important type of engagement offering to clients; and one where SMPs play a key role. Views were expressed that the current AUP project of the IAASB is important and timely in terms of clarifying the purpose, scope and nature of AUP engagements and providing appropriate guidance to practitioners (with respect to financial information and non-financial information).
52. SAICA supports the notion of including preconditions in the standard for accepting an AUP engagement on non-financial information. To this end, 74% of **survey respondents** were of the view that preconditions relating to the competence to undertake an AUP engagement on non-financial information should be developed.
53. In-line with the requirements contained in the IESBA Code¹⁸ relating to the principle of professional competence and due care, a practitioner should not accept an AUP engagement on non-financial information if they do not have the required level of professional knowledge and skill to provide the client with a competent professional service. Although extant ISRS 4400 makes reference to the requirement for the practitioner to comply with the IESBA Code¹⁹, it is recommended that this point be emphasised by including it as part of a set of preconditions within the standard. In clarifying this requirement, the risk of the practitioner accepting engagements without the required level of professional competence²⁰ will be mitigated. It is

¹⁷ ISRS 4400, paragraph 2

¹⁸ The International Ethics Standards Board for Accountants' Code of Ethics

¹⁹ ISRS 4400, paragraph 7

²⁰ Discussion Paper, paragraph 31

recommended that the need for a practitioner to make use of a practitioner's expert should also be included in the set of preconditions (also refer to comments in paragraphs 59 to 67 of this document).

54. Also refer to our comments to question 1 above which includes a suggestion that there may be an opportunity to expand the concept of preconditions beyond that applicable to assurance engagements and include preconditions for services other than assurance engagements (such as AUP engagements).

Question 6

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

55. Extant ISRS 4400 would presumably be revised in accordance with the clarity conventions that have been applied to other IAASB International Standards and would therefore include, amongst other sections, distinct scope and objectives sections. These sections should be used to distinguish an AUP engagement from assurance engagements, including clarifying what is meant by procedures of an audit nature²¹. Also expand on the notion that the outcome of an AUP engagement is a report on objectively verifiable factual findings and not subjective opinions or conclusions.
56. During our consultations, it was noted that there is currently uncertainty around the scope of ISRS 4400 with specific areas of concern being the following:
- a. It is not clear whether ISRS 4400 caters for consultancy engagements and if these are intended to be within the scope of this standard, how additional requests for the practitioner to make recommendations should be addressed?²².
 - b. Are forensic services included etc.?
57. Although it is recommended that the standard remain flexible in allowing for a variety of engagements to be included in the scope thereof, a distinct scope section which includes parameters / principals for the practitioner to consider in determining whether the requested engagement is within the scope of ISRS 4400 or not should be included that provides guidance on the matters discussed in the preceding paragraph.
58. Furthermore, it may be helpful to use examples that draw comparisons to subject matters or subject matter information addressed in other International Standards, for example, ISAE 3000 (Revised)²³ and ISAE 3410²⁴ to illustrate that AUP engagements may also be performed in relation to such non-financial information in accordance with the information needs of the intended users (and provided that any preconditions are met). The IAASB could consider using an approach similar to that applied in ISAE 3000 (Revised)²⁵.

²¹ ISRS 4400, paragraph 4

²² Discussion Paper, paragraphs 46 – 48 and question 12

²³ ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

²⁴ ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

²⁵ ISAE 3000 (Revised), paragraph 6

Question 7

Do you agree with the Working Group's view that ISRS 4400 should be enhanced, as explained above, for the use of experts in AUP engagements? Why or why not?

59. 87% of **survey respondents** agreed that ISRS 4400 should be enhanced for the use of practitioner's experts in AUP engagements.
60. However, the results of the SAICA survey also indicated that a significant proportion of **survey respondents** (78%) do not make use of the work of practitioner's experts in AUP engagements. Of those who do, 74% of the **survey respondents** indicated that they make reference to the practitioner's expert in the AUP report.
61. Instances were identified (31% of **survey respondents**) where a practitioner's expert may be needed in the performance of an AUP engagement, but was not used due to the uncertainty as to whether this is permitted, because extant ISRS 4400 does not make specific reference to the use of a practitioner's expert.
62. 76% of **survey respondents** who do make use of a practitioner's expert indicated that they apply the requirements of ISA 620²⁶ by analogy in assessing the practitioner's expert and evaluating the results of their work.
63. SAICA is supportive of the general approach as outlined in paragraphs 34 and 35 of the Discussion Paper in terms of enhancing ISRS 4400 for the use of practitioner's experts in AUP engagements. This could include using principles contained in ISA 620 and ISAE 3000 (Revised) by analogy, adapted as necessary for the purpose and nature of an AUP engagement.
64. During our consultations, a debate arose around the extent to which the practitioner can use the work of a practitioner's expert and whether the majority of procedures should be performed by the practitioner or if the majority can be performed by the practitioner's expert; and in the case of the latter, the nature and extent of the work that would be required by the practitioner. This can also be linked back to the discussion around preconditions for services other than assurance engagements as discussed in paragraphs 18 to 21 of this document.
65. By analogy ISA 620²⁷ indicates that the auditor *shall* not make reference to the work of an auditor's expert in the auditor's report unless required by law or regulation to do so. ISAE 3000 (Revised) however does not contain such a requirement and merely indicates that *if* the practitioner refers to the work of a practitioner's expert in the assurance report, the wording should not imply that the practitioner's responsibility for the conclusion expressed is reduced because of the involvement of the expert²⁸.
66. It is therefore recommended that guidance be included in ISRS 4400 on the reporting requirements when the practitioner uses the work of a practitioner's expert; to clarify whether or not reference is made to the practitioner's expert in the AUP report.
67. Also refer to our comments to question 1 above, where we highlight that the use of a practitioner's expert is an area where professional judgement should be applied (refer to paragraph 16 of this document).

²⁶ ISA 620, *Using the Work of an Auditor's expert*

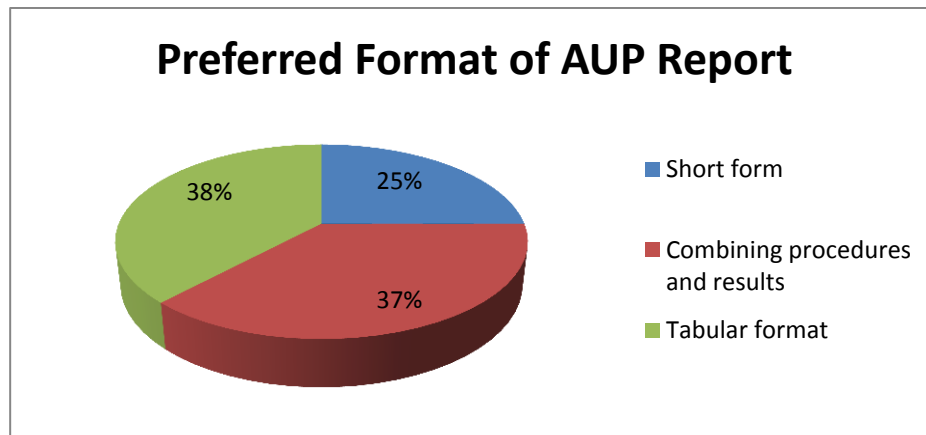
²⁷ ISA 620, paragraph 14

²⁸ ISAE 3000 (Revised), paragraph 70

Question 8

What are your views regarding the Working Group's suggestions for improvements to the illustrative AUP report?

68. The majority of **survey respondents** (65%) indicated that they make use of the illustrative report contained in extant ISRS 4400.
69. Those **survey respondents** who do not make use of the illustrative report in extant ISRS 4400 have either developed their own report specific to the needs of the engaging party (39%) or they make use of the report format stipulated in specific guidance issued by SAICA and/or the IRBA (61%).
70. For information purposes of the Working Group, the following are example of reports referred to in the previous paragraph that are used in South Africa:
- Part B of the IRBA Illustrative Stockbrokers Auditor's Report²⁹;
 - Part G and Part H of the IRBA: Illustrative SARB Banks Act Regulatory Reports³⁰; and
 - SAICA Circular 2/2016, Illustrative Report Relating to a Certificate Prepared by a Company for Conveyancing Purposes³¹.
71. With reference to the possible formats of AUP reports described in the Discussion Paper³², no clear preference was observed from the responses to the SAICA survey. The **survey respondents** indicated that they make use of all three of the formats; as indicated below. During the task group meetings that we attended, there was a distinct preference for the tabular format compared to the survey results.



72. From our consultations, it was noted that since all AUP engagements are unique, the best suited template is determined by the nature of the AUP engagement. It was further noted that there are instances where the AUP report takes a format specific to a request received; usually from a regulatory body. In this instance, the practitioner either issues the report in the exact format required by the regulatory body or incorporates this form into one of the three formats described above.

²⁹ https://www.irba.co.za/upload/JSE%20Reports%20A,%20B%20&%203_Stockbrokers_Sep%202016.doc

³⁰ <https://www.irba.co.za/upload/Reg%2046%20parts%20AH.docx>

³¹ <https://www.saica.co.za/Portals/0/Technical/financial-reporting/Circular2of2016IllustrativeReport.pdf>

³² Discussion Paper, paragraph 37

73. In merely signing off the report in the format required by a regulatory body, there is a risk that all the required disclosures as contained in paragraph 18 of extant ISRS 4400 are not included in the AUP report.
74. The request for a specific format from regulators is a frequent occurrence in the South African environment. For the understanding of the party requesting the AUP report, and to alert the practitioner to the risk of non-compliance with ISRS 4400, it is recommended that the revised ISRS 4400 contain guidelines on how this situation should be addressed.
75. To this end, it is our view that the revised ISRS 4400 should be expanded to include examples of the different formats, namely the tabular format and the combined format. With the unique nature of AUP engagements, the revised standard should not be prescriptive in requiring the practitioner to comply with a specific report format; but rather provide these examples for illustrative purposes.
76. The proponents of the tabular format argued that it enhances the users understanding of the AUP report since there is a clearer, more direct link between each procedure and its finding(s), and it is conducive to the concise formulation of findings.
77. Taking into account recent improvements in auditor reporting in the context of an audit of financial statements (as required by ISA 700 (Revised)³³) the Working Group should consider making certain improvements to the AUP report by analogy, including a better report structure that will enhance clear communication and including some additional elements such as:
- a. A statement that the practitioner has fulfilled his/her ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to the performance of an AUP engagement in the jurisdiction concerned;
 - b. A description of management's responsibilities in terms of the AUP engagement. This should include the fact that management is responsible for the preparation of the subject matter information, as well as ensuring that the procedures that have been agreed to be performed are adequate for the purposes of the engagement;
 - c. A description of the practitioner's responsibilities in terms of the AUP engagement. This should include the fact that the practitioner is required to perform the procedures that have been agreed to and report on objectively verifiable factual findings. This could also expand on the exercise of professional judgement as discussed earlier (refer to our comments to question 1 above).
78. Although extant ISRS 4400 already contains a list of requirements that need to be included in the AUP report³⁴, the standard is not prescriptive in stating that the AUP report *shall* contain at a minimum certain disclosures. It is recommended that the revised ISRS 4400 be prescriptive in indicating the minimum disclosure requirements for an AUP report. This will enhance the information value of AUP reports and ensure consistency in reporting.

Question 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?

79. 86% of **survey respondents** agreed with the interpretation of the Working Group that the AUP report is not limited to the signatories of the AUP engagement letter³⁵. AUP reports are regularly

³³ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

³⁴ ISRS 4400, paragraph 18

³⁵ Discussion Paper, paragraph 41

provided to parties that are not signatories to the engagement letter; hence the need to address and clarify these issues in the revised ISRS 4400.

80. To emphasise this point, in addition to parties such as regulators or funders, the AUP report may well find its way to other parties in an even broader context, taking cognisance of the age in which businesses currently operate. With the ever-evolving technological environment, any report issued by a practitioner should in essence be considered to be within the public domain. Realistically and conceptually this should be balanced with the principle that the practitioner's responsibilities relate to the primary and intended users of the AUP report and the related subject matter information, as a group. Therefore, the approach suggested by the Working Group in paragraph 41 of the Discussion Paper is sensible.
81. To this end, the practitioner needs to ensure that the risk of undue reliance being placed on the report, or the misinterpretation of the purpose of the engagement or the nature and extent of the work performed needs to be managed. Based on our consultations, practitioners are currently managing this risk by ensuring the following in issuing an AUP report:
 - a. The purpose of the AUP engagement, including the scope thereof is clearly defined in the AUP report;
 - b. The nature and extent of the procedures performed are clearly described in the AUP report;
 - c. The findings are documented in a such manner to enable the reader of the report to have a clear understanding of the outcome of the AUP engagement;
 - d. A statement highlighting what the AUP report is not intended for, i.e. that the procedures performed do not constitute either an audit or a review and as such, no assurance is expressed; and
 - e. A statement highlighting that the report is restricted to those parties that have agreed to the procedures to be performed.
82. In comparing the feedback SAICA has received to the reporting requirements contained in extant ISRS 4400³⁶, it is evident that there is no additional disclosures that practitioners are including that are not already recommended in the standard. This is an area where enhancements to the revised standard will be important, i.e. prescribing the minimum disclosure requirements for an AUP report.
83. Further guidance suggested by **survey respondents** which the Working Group may consider including in the revised ISRS 4400 to mitigate certain risks for the practitioner were as follows:
 - a. Although ISRS 4400³⁷ requires the practitioner to include the date of the AUP report, this could be expanded to address some practical considerations, for example the period for which a particular AUP report would be valid, or making reference to the date or period to which the procedures and the related factual findings relate (and are limited to);
 - b. To further clarify the scope of an AUP engagement by including a statement highlighting that the findings only relate to the information that has specifically been described as the subject matter information of the AUP engagement concerned. This section of the report could be expanded to indicate that since the AUP engagement constitutes the reporting of objectivity verifiable factual findings and not subjective opinions or conclusions, evidence from other sources or procedures that may ordinarily be obtained/performed in an assurance engagement has not been obtained/performed or considered in this engagement;

³⁶ ISRS 4400, paragraph 18

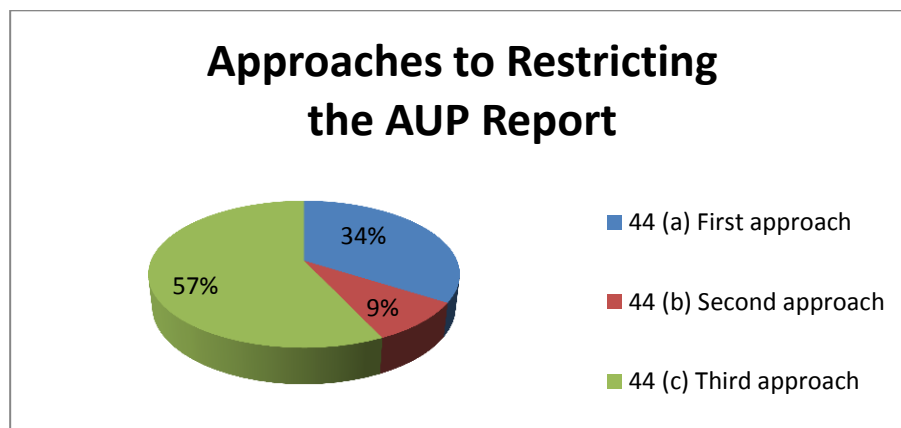
³⁷ ISRS 4400, paragraph 18

84. The group of **survey respondents** who indicated that they are not in favour of the AUP report being made available to parties other than those that are signatories to the engagement letter (14%), expressed the following concerns. This is in line with the information provided in the Discussion Paper and SAICA believes could be addressed in the manner as discussed above, including enhancing the reporting requirements in the revised ISRS 4400.
- a. Practitioners perform the AUP engagements according to a mandate received and as agreed with specific parties. Parties that are not privy to this additional information may not understand the purpose of the engagement and therefore misinterpret the results of the AUP engagement;
 - b. The AUP report is intended for the use of the contracting parties only and therefore the distribution of this report should be limited, while acknowledging that in certain instances there may be users of the report that are not signatories to the engagement letter, such as regulators and funders, but who understand the scope and purpose of the AUP engagement.

Question 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

85. In the SAICA survey, **survey respondents** were asked to rate the three approaches described in paragraph 44 of the Discussion Paper. The majority of the **survey respondents** indicated that the approach suggested in paragraph 44 (c) of the Discussion Paper would be the most appropriate approach (as presented below). These survey results must be read in conjunction with the results to question 9 which indicated that 86% of **survey respondents** agreed with the interpretation of the Working Group that the AUP report is not limited to the signatories of the AUP engagement letter.



86. Reasons provided by the group of **survey respondents** who selected the approach suggested in paragraph 44 (c) included the following:
- a. For all practical purposes, it is extremely difficult for the practitioner to restrict the distribution of the AUP report (as has also been highlighted above). The most effective way to mitigate the risk of undue reliance and misinterpretation of the AUP report is to articulate it in a manner to enable the reader to clearly understand the purpose of the engagement, the users it is intended for and the nature and extent of the work performed.
 - b. This option is seen to strike the appropriate balance between mitigating the risk of those who have not agreed to the procedures from misinterpreting the AUP report while allowing

more flexibility to meet legal or regulatory requirements for the AUP report to be made more widely available³⁸.

87. 54% of **survey respondents** found the approach suggested in paragraph 44 (b) of the Discussion Paper to be the least desirable option. Reasons provided were as follows:
- a. Any voluntary agreement could lead to disagreement between the parties at a later stage;
 - b. Voluntary agreements may not be accepted by third parties; and
 - c. This is considered to be a very informal approach which is open to interpretation. This may result in inconsistency in applying the requirements in practice, which is not desirable.
88. A further perspective that the Working Group may wish to consider relates to the suggested phrase in paragraph 44(c) of the Discussion Paper that the report “may not be suitable for any other purposes.” This implies that there could be circumstances under which the report could be suitable; circumstances which the practitioner may not necessarily have anticipated or intended. A more prudent approach would be to state that the AUP report “is not suitable for any other purposes”, or “should not be relied upon other than for its intended purpose”.

Question 11

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

89. The vast majority of **survey respondents** (94%) were of the view that there are no other approaches that should be considered.

Question 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?

90. It is SAICA's view that recommendations should not be provided as part of an AUP engagement. The objective of an AUP engagement is for the practitioner to carry out procedures to which the practitioner, the entity and any appropriate third parties have agreed and to report on objectively verifiable factual findings³⁹. The making of recommendations is considered to be subjective in nature is therefore outside of the scope of an ISRS 4400 engagement.
91. In response to the question posed in the Discussion Paper, 97% of the **survey respondents** agreed with the Working Group's view that if recommendations were to be provided that they should be clearly distinguished from the procedures and factual findings. The reasons provided for this include the following (it should be noted that some respondents were suggesting that recommendations should be accommodated outside of the AUP report):
- a. Recommendations could be inappropriately interpreted as conclusions which fall outside the scope of ISRS 4400 and should therefore not be included in the AUP report together with the procedures and the related factual findings;
 - b. In line with question 10 above, that deals with restricting the AUP report and the various matters linked thereto, the inclusion of recommendations in the AUP report may increase the risk that these can be misinterpreted by users of the report; particularly parties that do not understand the AUP engagement and the conditions of the engagement;
 - c. Recommendations are a by-product of the AUP engagement and if these are included in the report, an expectation may be created that the practitioner will follow up on the

³⁸ Discussion Paper, paragraph 45

³⁹ ISRS 4400, paragraph 4

implementation of the recommendations, where there is no such requirement for the practitioner to do so.

92. Almost half of the **survey respondents** (45%) receive requests to make recommendations either as part of, or in addition to AUP engagements. Furthermore, based on our consultations, it was noted that some practitioners are of the view that recommendations /observations are a natural by-product of conducting an AUP engagement. Based on these results, the revised ISRS 4400 should provide guidance to practitioners on how to approach such requests.
93. **Survey respondents** were asked to indicate how they currently approach a request to make recommendations either as part of, or in addition to AUP engagements. It was found that practitioners normally respond to this as follows:
- a. Issuing a management letter as a by-product of the AUP engagement (55%);
 - b. Entering into a separate engagement (39%); or
 - c. Other (6%). The comment received here was that the recommendations are included in a separate section as part of the AUP report.

Question 13

Are there any other areas in ISRS 4400 that needs 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.

94. As indicated in the Discussion Paper⁴⁰, ISRS 4400 is yet to be updated to the Clarity format. The revised ISRS 4400 should be structured and drafted in accordance with the clarity conventions.
95. As a starting point, the following recommendations are made for the consideration of the Working Group:
- a. Distinct scope and objectives sections: Refer to paragraphs 55 to 58 of this document for our comments in this regard;
 - b. Definitions: Extant ISRS 4400 does not include a list of relevant definitions to clarify the meaning attributed to terms used in the standard. The inclusion of definitions will be useful in providing clarity on both the scope of the ISRS, as well as the requirements applicable to the practitioner. ISRS 4400 caters for a specific type of engagement and since the Glossary of Terms contains definitions of terms that are applicable to a wider set of standards, catering for other more generic engagements, SAICA recommends that these definitions be included within the revised ISRS 4400 and not in the Glossary of Terms;
 - c. Engagement acceptance and preconditions: Refer to paragraphs 17 to 27 of this document for suggestions in relation to the inclusion of engagement acceptance considerations, as well as preconditions;
 - d. Quality Control: Although ISQC 1⁴¹ is applicable to an AUP engagement, extant ISRS 4400 does not make specific mention of whether the practitioner is required to be a member of a firm that is subject to ISQC 1. It is recommended that the revised standard address the relationship with ISQC 1. Furthermore, the revised ISRS 4400 should include a section that addresses engagement level quality control;
 - e. Extent of testing: Extant ISRS 4400 does not make mention of the extent of testing required and although SAICA is in agreement, it is recommended that the extent of testing

⁴⁰ Discussion Paper, paragraph 4

⁴¹ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Service Engagements*

- be agreed upon upfront and included in the agreed procedures performed, and as reported on in the AUP report;
- f. Documentation: Extant ISRS 4400 contains very limited requirements for documentation. The revised ISRS 4400 should include enhanced documentation requirements, including requirements and guidance linked to the assembly (and archiving) of the engagement file.
 - g. Other areas around which a debate arose during our consultation forums included the following:
 - i. Is there any requirement for the practitioner to consider subsequent events that may impact on the AUP engagement? If so, to what extent? It is our view that since the AUP engagement is performed for a specific purpose, at a specific point in time, there is no responsibility on the practitioner to consider subsequent events;
 - ii. What is the requirement in terms of obtaining management representations? With reference to the suggestion contained in paragraph 77(b) of this document, to include a description of management's responsibilities in terms of the AUP engagement in the AUP report, it is our view that the practitioner should be required to obtain a management representation to confirm that management have complied with such responsibilities;
 - iii. Does the practitioner have any responsibility with respect to considering the accuracy and completeness of the records, documents, explanations and other information obtained in the context of performing the agreed-upon procedures? Can such information be taken at face value; and only if the practitioner suspects or is concerned about something (e.g. difficulty in determining or formulating a factual finding) should further action be taken? Would this require the exercise of professional judgement?
 - iv. Does the practitioner have a responsibility to communicate any matters not required to be communicated in the AUP report, but that comes to the attention of the practitioners, to management or those charged with governance? It is our view that this is beyond the scope of an AUP engagement.
96. SAICA included in its comment letter on the IAASB Discussion Paper relating to *Supporting credibility and trust in emerging forms of external reporting* a suggestion that there could be a need to explore the potential gap that may exist between an AUP engagement and an assurance engagement; i.e. the possibility of an engagement where a practitioner exercises professional judgement in determining the procedures that may be required to examine or investigate a subject matter, and reporting his/her findings, without providing assurance in the form of an assurance conclusion. We used the current SAICA survey to test respondents' perceptions in this regard. 63% of **survey respondents** believed that there is a gap in the market.

Question 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?

97. The results of the SAICA survey indicated that there is a need for the IAASB to address multi-scope engagements with 86% of **survey respondents** being of the view that non-authoritative guidance would be useful in light of the emerging use of these types of engagements. It is SAICA's view that although non-authoritative guidance will provide useful guidance in the interim; the ultimate goal of the Working Group should be for this non-authoritative guidance to become authoritative in future to ensure consistent application in practice.
98. Guidance as to what is considered to be a multi-scope engagement and how this is applied in practice is required as these types of engagements are becoming more popular among regulators.

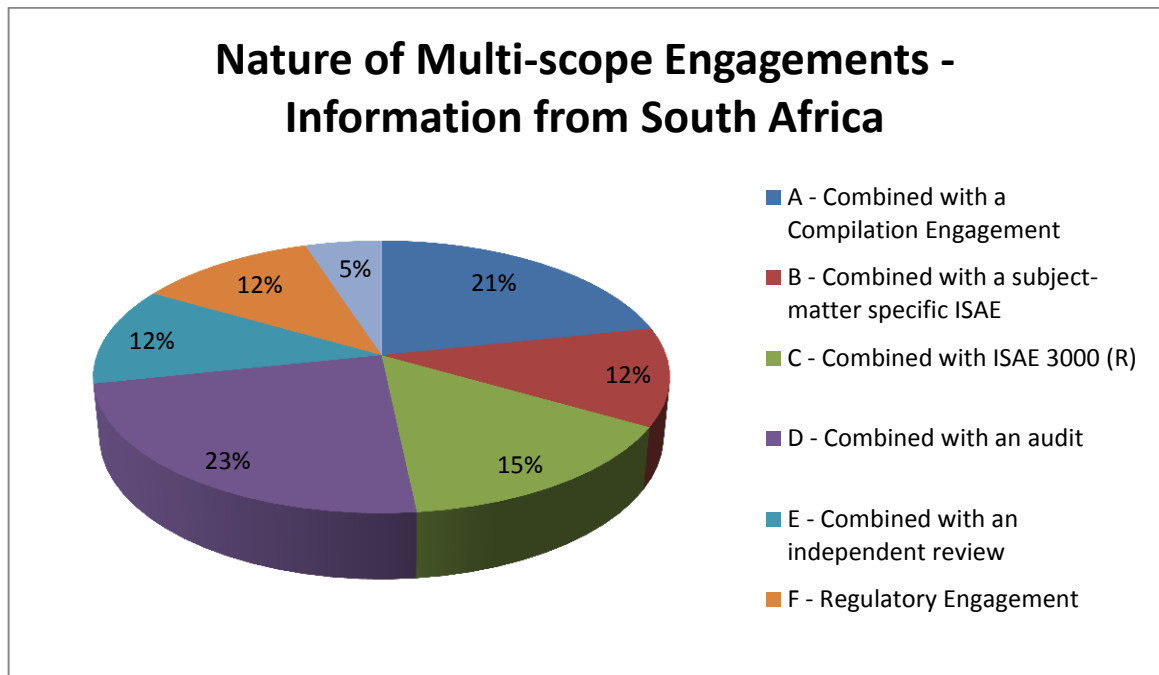
99. The Discussion Paper already refers to examples of multi-purpose engagements in the South African environment⁴². SAICA does not currently have any further information to add in this regard.

Question 15

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

100. 95% of **survey respondents** agreed that the Working Group should address AUP engagements before it addresses multi-scope engagements.

101. SAICA also requested respondents that have received requests to perform multi-scope engagements to indicate the nature of such engagements. 37% of **survey respondents** confirmed receiving such requests, and indicated the nature of these multi-scope engagements as follows:



102. The results of the SAICA survey as well as feedback received during our consultations indicated that multi-scope engagements are not common and are mainly performed by the larger audit firms. From a local perspective, for the more common multi-scope engagements, the IRBA has issued guidance (also refer to question 14 above).

103. SAICA believes that the focus should currently be on revising ISRS 4400. Since a multi-scope engagement draws on the principles contained in different International Standards, it is advisable to establish sound principles relating to each stand-alone engagement before attempting to provide guidance on combining these engagements. Once the project on the revision of ISRS 4400 is completed, the IAASB could consider the demand for guidance in relation to multi-scope engagements and the impact that this may have on the revised ISRS 4400 (and other International Standards).

⁴² Discussion Paper, paragraph 55