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Submitted electronically to MattWaldron@iaasb.org

Mr Matt Waldron
Technical Director
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Dear Matt

Comments on the Discussion Paper: Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards

The Independent Regulatory Board for Auditors (IRBA) is both the audit regulator and national auditing standard setter in South Africa. Its statutory objectives include the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in South Africa. Its statutory Committee for Auditing Standards (the CFAS) is responsible for assisting the IRBA to adopt, develop, maintain, issue and prescribe auditing pronouncements.

We appreciate this opportunity to comment on the *Discussion Paper: Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards*.

Our comments have been prepared by a CFAS task group, comprising representatives from large firms, regulators, the South African Institute of Chartered Accountants, the Institute of Internal Auditors South Africa and the Auditor-General of South Africa. The comments are presented in the following sections:

1. General comments; and
2. Request for specific comments and responses.

Kindly e-mail us at ivanker@irba.co.za or ychoonara@irba.co.za or phone us directly on +27 87 940 8838 / +27 87 940 8867, if further clarity is required on any of our comments.

Yours faithfully

Signed electronically

Imran Vanker
Director: Standards

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1. GENERAL COMMENTS

- i. We support the IAASB's decision to revise International Standard on Related Services (ISRS) 4400¹. The standard needs to be updated to the clarity format and the guidance has to be enhanced in order to further strengthen the standard, in light of the increasing demand for Agreed-Upon Procedures (AUP) engagements, which is consistent with the views as mentioned in the Discussion Paper (DP).
- ii. Consequently, the revision of ISRS 4400 should be prioritised.
- iii. In general, we support the proposals of the Working Group. However, we believe that in order to further improve the quality of AUP engagements the Working Group could consider the following recommendations:
 - Expanding the scope paragraphs so as to clarify instances when an AUP engagement is not appropriate, as currently there is confusion in this regard. This elaboration would be similar to the manner that the IAASB has done in International Standard on Assurance Engagements (ISAE) 3000 (Revised)², paragraphs 6 and 8.
 - Provide further guidance on the documentation requirements as they are not detailed enough.
 - Including guidance that addresses the practitioner's responsibilities with regard to the quality of evidence obtained (accuracy and completeness thereof).

2. REQUEST FOR SPECIFIC COMMENTS AND RESPONSES

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

1. *Results from the Working Group's outreach indicate that many stakeholders are of the view that professional judgment has a role in an AUP engagement, particularly in the context of performing the AUP engagement with professional competence and due care. However, the procedures in an AUP engagement should result in objectively verifiable factual findings and not subjective opinions or conclusions. Is this consistent with your views on the role of professional judgment in an AUP engagement? If not, what are your views on the role of professional judgment in an AUP engagement?*

Response

- 1.1. Yes, we support the view that professional judgment has a role in an AUP engagement since the practitioner has to apply his/her professional judgment in determining whether the procedures requested to be performed meet the objectives of the AUP engagement; and also in respect of evaluating the quality of the evidence obtained.
- 1.2. The proposal to include guidance relating to professional judgment in the introduction section of the standard will help in clarifying these responsibilities and will also have an impact on the quality of evidence obtained by the practitioner (for example identifying false evidence).

¹ ISRS 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*.

² ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

- 1.3. The developments related to professional scepticism, both from the IAASB's own project as well as work done by the other standard setting boards will be of relevance to this project.
2. *Should revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?*

Response

- 2.1. Yes, as the consideration of professional judgment is not clear in the extant standard. We support the Working Group's view that professional judgment has a role to play in an AUP engagement, but may be limited in the context of professional competence and due care. We believe that professional judgment would be applicable when a practitioner is determining whether to accept or continue with the engagement and reporting thereon. However, what is of importance is how the guidance is included in the standard. If it is included in the requirement section of the standard related to work effort, this would – as mentioned in the DP – result in a subjective opinion being issued as opposed to objectively verifiable factual findings.
- 2.2. Including guidance on professional judgment would:
- Strengthen the standard, resulting in the practitioner being more aware of his/her responsibilities when performing an AUP engagement;
 - Have a positive impact on the quality of the AUP report; and
 - Serve to enhance the protection of public interest.
- 2.3. We recommend that the Working Group considers including some of the content of paragraph 12 of the DP in the standard.

The Independence of the Professional Accountant

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

Response

- 3.1 We are of the view that independence is not necessary in an AUP engagement as the practitioner does not apply professional judgment in performing the procedures. We support the Working Group's recommendation that the requirement that the practitioner should include a statement in the AUP report, if he/she is not independent, as per the extant standard, is sufficient.
- 3.2 Further, we recommend that the Working Group explores any possible circumstances related to independence under which an assignment should not be accepted.
- 3.3 Our views remain the same if the AUP report is restricted to specific users.

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

4. *What are your views regarding a prohibition on unclear or misleading terminology with*

related guidance about what unclear or misleading terminology mean? Would your views change if the AUP report is restricted?

Response

- 4.1 We support the Working Group's proposal on prohibiting the use of unclear or misleading terminology since an AUP report is specific and factual. This could serve well as an additional measure to enhance objectivity and consistency throughout all AUP engagements performed.
- 4.2 We recommend that the guidance contextualises or clarifies why a particular word should not be used. The guidance should be flexible and not prescriptive.
- 4.3 Furthermore, we recommend that words that are prescribed in legislation or by a regulator, but are unclear or misleading, be defined in the scope paragraph of the AUP report.
- 4.4 Refer to Appendix 1 for a list of proposed words that the Working Group can consider for inclusion.
- 4.5 Our views will remain the same if the AUP report is restricted.

AUP Engagements on Non-Financial Information

5. What are your views regarding clarifying that the scope of ISRS 4400 includes non-financial information, and developing pre-conditions relating to competence to undertake an AUP engagement on non-financial information?

Response

- 5.1 Many AUP engagements encountered relate to non-financial information (such as compliance with internal controls). Practitioners are therefore faced with the question as to whether the engagement would fall under ISRS 4400 or ISAE 3000 (Revised). Clarifying that the scope of ISRS 4400 includes non-financial information would be beneficial.
 - 5.2 We support the Working Group's proposal for developing pre-conditions relating to competence to undertake an AUP engagement on specialised areas or a specific subject matter, as this would enhance the quality of such AUP engagements. The guidance would assist the practitioner in evaluating whether he/she has the necessary competence before accepting the engagement.
- 6. Are there any other matters that should be considered if the scope is clarified to include non-financial information?*

Response

- 6.1 Consequential changes to the auditor's report template should be considered.
- 6.2 We recommend that with regard to engagements in respect of specialised areas, the AUP report be enhanced to include a statement detailing why the practitioner felt that he/she possessed the necessary competence and skills to perform the engagement.

Using the Work of an Expert

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

Response

- 7.1 Yes, we support the Working Group's proposal that ISRS 4400 should be enhanced to encompass the use of experts. It is important for a practitioner to be able to use an expert on areas where technical competence or expertise on a specific subject matter is lacking.
- 7.2 However, we are concerned that allowing the use and the level of involvement of an expert should not compromise or bring into question the competence and skill that the practitioner needs to have to be able to perform the engagement.
- 7.3 We recommend that the Working Group considers whether the procedures mentioned in paragraphs 34 and 35 of the DP should be included in the AUP report.
- 7.4 Furthermore, we recommend that reference to the use of an expert in the AUP report be allowed, similar to ISAE 3000 (Revised), paragraph 70.

Format of the AUP Report

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

Response

- 8.1 The Working Group's proposal in presenting the procedures and corresponding findings in a tabular format would be the most logical for an AUP report as this would facilitate better communication. However, this will depend on the nature of the engagement and procedures to be performed. We recommend that the illustrative AUP report be presented in a tabular format with a "secondary option" of a list.
- 8.2 We recommend that the AUP report be enhanced to include:
- A statement that the practitioner has fulfilled his/her ethical responsibilities in accordance with the International Ethics Standards Board for Accountants' (IESBA) Code of Ethics for professional accountants and any other ethical requirements that are applicable to the performance of the AUP engagement in the jurisdiction concerned; and
 - Details of the extent of procedures performed or not performed on the information received from management, in verifying the accuracy and completeness of the information.
- 8.3 We further recommend that the responsibilities of management and the practitioner be clearly distinguished in the AUP report.

8.4 The following are examples of AUP reports that are used in South Africa:

- The IRBA Illustrative Section 12I Tax Incentive Programme Report³;
- Part 2B of the IRBA Illustrative Stockbrokers Auditor's Report⁴;
- Part G and Part H of the IRBA Illustrative SARB Banks Act Regulatory Reports⁵;
- The IRBA Illustrative Section 15 Retirement Funds Reports⁶; and
- SAICA Circular 2/2016, Illustrative Report Relating to a Certificate Prepared by a Company for Conveyancing Purposes⁷.

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

9. *Do you agree that the AUP report can be provided to a party that is not a signatory to the engagement letter as long as the party has a clear understanding of the AUP and the conditions of the engagement? If not, what are your views?*

Response

9.1 Yes. Currently, in many jurisdictions AUP reports are provided to a regulator or a financial institution even though these bodies are not signatories to the engagement letter. However, we recommend that guidance be provided when an AUP report is provided to a party or parties that were not signatories to the engagement letter, as the extant standard only deals with the practitioner and the engaging party.

AUP Report Restrictions – Three Possible Approaches to Restricting the AUP Report

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.*

Response

10.1 We of the view that option (c) is the most appropriate.

10.2 The first approach, option (a), is too prescriptive and impractical. It disregards circumstances where an AUP report has to be distributed in accordance with legal or regulatory requirements.

10.3 The second approach, option (b), is too open-ended and consequently increases the risk of misinterpretation of the AUP report by unintended users to an unacceptable level.

10.4 The third approach, option (c), is the most balanced approach, and it is in line with other standards as it alerts readers, specifically, to the objective, scope and intended use of the AUP report.

³ <https://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/industry-specific-guides-and-regulatory-reports/enterprise-investment-programme:-manufacturing-investment-programme-or-tourism-support-programme-report>.

⁴ <https://www.irba.co.za/industry-specific-guides-and-regulatory-reports-pages/jse-related-engagements>.

⁵ <https://www.irba.co.za/upload/Reg%2046%20parts%20AH.docx>.

⁶ <https://www.irba.co.za/guidance-to-ras/industry-specific-guides-and-regulatory-reports/retirement-fund-reports>.

⁷ <https://www.saica.co.za/Portals/0/Technical/financial-reporting/Circular2of2016IllustrativeReport.pdf>.

10.5 This approach is generally used for reporting to regulators in South Africa.

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

Response

11.1 No.

Recommendations Made in Conjunction with AUP Engagements

12. *Do you agree with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings? Why or why not?*

Response

12.1 Yes, as they serve very different purposes. The factual finding gives an account of what evidence was obtained to support it. A recommendation, on the other hand, has an element of professional judgment and is therefore fundamentally different from factual findings. If the recommendations form part of the AUP report, there is the risk that the recommendation can be construed as if the practitioner is providing an opinion or conclusion.

12.2 Providing recommendations is an “act of goodwill” on the part of the practitioner; and if combined with the AUP report, a further risk is that regulators, for example, would hold management of the entity liable if the recommendations are not implemented.

12.3 We support the Working Group’s view that recommendations should be provided in a separate document from the AUP report (first bullet point of paragraph 48), similar to a written report to management on control deficiencies (ISA 265)⁸.

Other Issues Relating to ISRS 4400

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

Response

13.1 We recommend that:

- The Working Group includes a list of relevant definitions clarifying the meaning of terms used in the standard, where these are not defined in the Glossary of Terms.
- The standard addresses the relationship with ISQC 1⁹.
- Similar to ISRS 4410 (Revised)¹⁰, paragraph 23, specific requirements and application guidance relating to “engagement level quality control” should be included and

⁸ ISA 265, *Communicating Deficiencies in internal Control to Those Charged with Governance and Management*.

⁹ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*.

¹⁰ ISRS 4410 (Revised), *Compilation Engagements*.

explained within the context of AUP engagements.

- Preconditions or a list of specific items to be agreed upon before accepting/continuing the AUP engagement should be included similar to ISRS 4410 (Revised), paragraphs 24 to 26.
- Clear requirements and application guidance should be included regarding the providing of recommendations. This should be the case regardless of whether a separate report, an appendix to the AUP report or a separate section within the AUP report is opted for when reporting recommendations (as per question 12 of the DP). Similar to ISRS 4410 (Revised), paragraph 27, this can be included under the heading “Communication with those charged with governance”.

13.2 Documentation requirements should be enhanced, drawing from ISA 230¹¹ paragraphs 8 and 9 and ISRS 4410 (Revised), paragraph 38.

Multi-Scope Engagements

14. What are your views as to whether the IAASB needs to address multi-scope engagements, and how should this be done? For example, would non-authoritative guidance be useful in light of the emerging use of these types of engagements?

Response

14.1 We support the idea that non-authoritative guidance be developed. This would be useful as regulators are requiring practitioners to perform these types of engagements. Further, this will alert users who are not aware of the fact that these types of engagements can be performed.

14.2 We recommend that the guidance:

- Considers a classification for the reports within multi-scope engagements and clarifies that the scope of each of the engagements is different in order to avoid confusion or misunderstanding among users of the reports; and
- Clarifies who can perform each of these engagements.

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

Response

15.1 We agree with the Working Group’s proposal that the update of ISRS 4400 is necessary and is a priority that should be addressed before guidance on multi-scope engagements is developed. In the interim, the IAASB should address multi-scope engagements, as suggested in our response to question 14.

¹¹ ISA 230, *Audit Documentation*.

APPENDIX 1

Following are examples of appropriate language to be used when describing procedures to be performed on an agreed-upon procedures engagement, and examples of less descriptive or inappropriate language:

<u>Appropriate</u>	<u>Less descriptive or inappropriate</u>
<ul style="list-style-type: none"> • Compare (amounts) 	<ul style="list-style-type: none"> • Analytically
<ul style="list-style-type: none"> • Confirm (i.e. obtain confirmation) 	<ul style="list-style-type: none"> • Analyse (if not specifically defined and if subject to judgment or interpretation)
<ul style="list-style-type: none"> • Inspect 	<ul style="list-style-type: none"> • Review
<ul style="list-style-type: none"> • Observe 	<ul style="list-style-type: none"> • Assess (the reasonableness)
<ul style="list-style-type: none"> • (Re)calculate 	<ul style="list-style-type: none"> • Check (unless defined in the procedures)
	<ul style="list-style-type: none"> • Ascertain
	<ul style="list-style-type: none"> • Determine (the appropriateness)
	<ul style="list-style-type: none"> • Discuss
	<ul style="list-style-type: none"> • Ensure
	<ul style="list-style-type: none"> • Evaluate
	<ul style="list-style-type: none"> • Examine
	<ul style="list-style-type: none"> • Interpret
	<ul style="list-style-type: none"> • Obtain (audit) evidence/an understanding
	<ul style="list-style-type: none"> • Prepare
	<ul style="list-style-type: none"> • Significant
	<ul style="list-style-type: none"> • Sample (without parameters being set)
	<ul style="list-style-type: none"> • Material