

15 March 2019

Submitted electronically to

<http://www.ifac.org/publications-resources/proposed-international-standard-related-services-4400-revised-agreed-upon>

Mr Willie Botha
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue
New York
10017 USA

Dear Willie

Comments on Proposed Changes to the International Standard on Related Services (ISRS) 4400 (Revised), Agreed-Upon Procedures Engagements

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 (CFAS) is responsible for assisting the IRBA to adopt, develop, maintain, issue and prescribe auditing pronouncements.

We appreciate this opportunity to comment on the International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*, developed by the International Auditing and Assurance Standards Board (IAASB).

Our comments have been prepared by a CFAS task group that comprises representatives from large firms, regulators and the South African Institute of Chartered Accountants. The comments are presented under the following sections:

- A. Overall comment;
- B. Request for specific comments and responses; and
- C. Request for comments on general matters.

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

Yours faithfully,

A handwritten signature in cursive script that reads "Bernard Peter Agulhas".

Bernard Peter Agulhas

Chief Executive Officer

A. OVERALL COMMENT

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

Response

1.1 The IRBA welcomes and supports the IAASB's decision to revise the International Standard on Related Services (ISRS) 4400¹. This is because the standard was developed more than 20 years ago. Agreed-upon procedures (AUP) engagements are widely used in many jurisdictions and the demand for AUP engagements is growing. We further support the proposed amendments made towards clarifying and modernising ED-4400. The proposed amendments are appropriate and respond to addressing the needs of stakeholders and the public interest issues identified by the IAASB. These proposed amendments include the following:

- Broadening the scope of the ED-4400 to include both financial and non-financial subject matters;
- Clarifying the role, and when professional judgment plays a role in an AUP engagement, including explanations on the distinctions between an AUP engagement and an assurance engagement;
- Including material to help the practitioner avoid, in the AUP report, the use of terminology that is unclear, misleading or subject to varying interpretations; and
- Adding material that will make the AUP report clearly distinguishable from other engagement reports.

B. REQUEST FOR SPECIFIC COMMENTS AND RESPONSES

Professional Judgment

2. *Do the definition, requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role professional judgment plays in an AUP engagement?*

Response

- 2.1. Yes, we support the view that professional judgment is required or has a role to play in an AUP engagement; and paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect this.
- 2.2. However, we believe that the wording of paragraph A16 of the application material lacks clarity and does not address the possibility of a misinterpretation regarding whether or not the practitioner would apply professional judgment in the execution of the procedures.
- 2.3. We suggest that it be clarified in paragraph A16 that the practitioner would not apply

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

professional judgment in the execution of the procedures to be performed. A procedure that requires the practitioner to exercise his/her professional judgment in performing it is unlikely to meet the engagement acceptance and continuance preconditions.

Practitioner's Objectivity and Independence

3. *Do you agree with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)? If not, under what circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the IAASB would discuss the relevant independence considerations with the IESBA?*

Response

- 3.1 Yes, we agree with the IAASB's decision not to include a precondition for the practitioner to be independent when performing an AUP engagement as that would be inconsistent with the International Ethics Standards Board for Accountants (IESBA) *International Code of Ethics for Professional Accountants (including the International Independent Standards)* (IESBA Code). The IESBA Code does not require the practitioner to be independent when performing non-assurance engagements. As the practitioner is reporting on factual results from performing an AUP, we support the view that independence is less relevant because it is unlikely that factual results would be susceptible to bias, as mentioned in the Explanatory Memorandum (EM).
4. *What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the Explanatory Memorandum, and the related requirements and application material in ED-4400? Do you believe that the practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.*

Response

- 4.1 Given that there may be engagements for which the practitioner will be required to be independent, and others for which the practitioner's independence might not be a requirement, we support the proposed disclosure of the practitioner's independence in the AUP report, as outlined in the table in paragraph 22 of the EM and the related requirements and application material.
- 4.2 We are of the view that the table in paragraph 22 of the EM is helpful, from an implementation perspective, as it summarises and clarifies the requirements and application material regarding the practitioner's independence. We also suggest that the IAASB should consider including the table in ED-4400 as application material.
- 4.3 In circumstances where the practitioner has determined that he/she is independent,

even though the practitioner is not required to be independent in accordance with any law or regulation, we suggest that the IAASB considers including an illustrative example on how the basis of the practitioner's independence statement would be articulated in the AUP report in order to avoid the risk of inconsistent descriptions.

- 4.4 We do not believe that the practitioner should be required to make a formal assessment of his/her independence when there is no requirement for the practitioner to be independent as that would place an unnecessary obligation on the practitioner. Also, there are currently no independence requirements that govern AUPs and thus it will be difficult for the practitioner to assess his/her independence.

Findings

5. *Do you agree with the term "findings" and the related definitions and application material paragraphs 13(f) and A10-A11 of ED-4400?*

Response

- 5.1 Yes, we agree with the term "findings" and the related definitions and application material paragraphs 13(f) and A10 of ED-4400.
- 5.2 We are of the view that paragraph A11 of the application material could be clarified further or enhanced by including the following underlined wording at the end of the paragraph: "*In some jurisdictions the term "findings" may be replaced with "factual findings", pursuant to local law, regulation or practice.*"

Engagement Acceptance and Continuance

6. *Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED-4400, appropriate?*

Response

- 6.1 Yes, the requirements and application material are appropriate. Requiring the engaging party to acknowledge that the expected procedures to be performed by the practitioner are appropriate is important.
- 6.2 Further, requiring that an AUP and related findings be described objectively in terms that are clear, not misleading and not subject to varying interpretations is appropriate in addressing the confusion over what an AUP engagement entails.

Practitioner's Expert

7. *Do you agree with the proposed requirements and application material on the use of a practitioner's expert in paragraphs 28 and A35-A36 of ED-4400, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED-4400?*

Response

- 7.1 Overall, we agree with the proposed requirements and application material on the use

of a practitioner's expert in paragraphs 28 and A35-A36 of ED-4400. We support the IAASB's view that a practitioner's expert can assist the practitioner by using the expert's competence and capabilities in performing the AUP.

- 7.2 However, we suggest that the IAASB should clarify what is meant by "to be involved" in the work of the expert in paragraph 28(b) of the requirements as we are of the view that this might create confusion or misinterpretation on what an expected level of involvement of the practitioner is in an AUP engagement. In addition, paragraph 28(b) could be rephrased to emphasise the responsibility of the practitioner for the AUP engagement.
- 7.3 Further, we suggest that the IAASB considers including a more useful or relevant example in the AUP report (illustration 2 in Appendix 2), such as one linked to the examples mentioned in paragraph A36 of the application material. It is unclear why the procedure, as described in illustration 2 of Appendix 2, would require an external expert.

AUP Report

8. *Do you agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?*

Response

- 8.1 Yes, we support the view that the AUP report should not be restricted as there may be other users who are not signatories to the engagement letter that might have valid reasons to also access the AUP report. Currently, in South Africa AUP reports are provided to a regulator or a financial institution even though these bodies are not signatories to the engagement letter.
- 8.2 We agree with the wording of paragraph A43 of the ED-4400 that the decision on whether the AUP report should be restricted or not be left to the practitioner to determine, and be consistent with the terms of the engagement.
9. *Do you support the content and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 2 of ED-4400? What do you believe should be added or changed, if anything?*

Response

- 9.1 Presenting the procedures and corresponding findings in a tabular format is logical for an AUP report as that can help facilitate better communication and readability.

C. REQUEST FOR COMMENTS ON GENERAL MATTERS

10. *(a) Translations—recognizing that many respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential*

translation issues respondents note in reviewing the ED-4400.

Response

10.1 No comment.

(b) Effective Date—Recognizing that ED-4400 is a substantive revision and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for AUP engagements for which the terms of engagement are agreed approximately 18–24 months after the approval of the final ISRS. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISRS. Respondents are also asked to comment on whether a shorter period between the approval of the final ISRS and the effective date is practicable.

Response

10.2 We support the proposed implementation period of approximately 18-24 months, with early adoption permitted. We believe that the proposed effective date would be appropriate as the amendments, although substantive, would not pose an implementation challenge; and they would provide sufficient time for the firms to revise their methodology and templates.

10.3 With respect to the consideration of a shorter implementation period, we believe that permitting early adoption remains the most appropriate option. However, assuming that the IAASB Board approves the final ISRS in December 2019, and the Public Interest Oversight Board approves it in March 2020, the earliest reasonable effective date that could be proposed is for engagements for which the terms are agreed on or after 15 March 2021.