

March 29, 2017

International Auditing and Assurance Standards Board

International Federation of Accountants

529 Fifth Avenue, 6th Floor

New York, NY 10017

Dear Sir or Madam,

The Korean Institute of Certified Public Accountants (KICPA) is pleased to comment on the Discussion Paper (DP) issued by the International Auditing and Assurance Standards Board (IAASB), regarding “Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB’s International Standards.” KICPA is a strong advocate of IAASB for your relentless efforts to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

<KICPA Comments>*Professional Skepticism*

Q1. 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?

We are with the Working Group in that professional judgment has a role in the context of performing the AUP engagement with professional competence and due care.

The paragraph 12 and 13 describes that the AUP engagement would result in objectively verifiable factual findings, not subjective opinions or conclusions, but the demonstration of professional competence and due care by practitioners in the process of the AUP engagement is the exercise of minimum level of professional judgment in the AUP engagement, as we believe. Entrusting engagements to practitioners is based on one's expectation of professional judgment to be exercised in the process of not only performing engagements but reaching a consensus on necessary procedures.

In addition, even though AUP involves so many details that the procedures do not necessitate professional judgment, it would be practically impossible not to exercise professional judgment at all throughout engagements.

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

We believe that the revised ISRS 4400 include requirements relating to professional judgment. The inclusion of requirements that professional judgment has a role in the context of practitioners performing the AUP engagement with professional competence and due care could provide a basic guidance as to the extent to which practitioners should exercise professional judgment.

However, the inclusion of excessive requirements on professional judgment in ISRS 4400 could invite an unintended consequence that AUP users and practitioners should exercise

professional judgment to the equivalent level required in audit. Considering the consequence, it would be necessary to provide clear-cut definitions and specified explanations of professional judgment, separate from ones in ISAs, to clarify that ISRS 4400 requires a minimum level of professional judgment in the context of performing the AUP engagement with professional competence and due care, and then to prevent from being mistakenly believed that professional judgment in AUP engagement offers subjective opinions or conclusions.

The Independence of the Professional Accountants

Q3. What are your views regarding practitioner independence for AUP engagements? Would your views change if the AUP report is restricted to specific users?

It would not be necessary to require independence to practitioners in relation with AUP engagements, just as the IESBA Code does not require. The restriction of the AUP report to specific users would make it further unnecessary to require independence of professional accountants.

As described in the paragraph 16, independence goes beyond objectivity and being objective obliges practitioners not to compromise their professional judgment because of bias, conflict of interest or the undue influence of others. As answered in the question 2, professional judgment needs to be exercised at a limited manner when performing AUP engagements in the context of professional competence and due care, thereby making the impairment of professional judgment extremely limited, accordingly ending up with objectivity and, going further, independence not impaired, as we believe.

However, some argue that independence, a mechanism to guarantee objectivity, needs to be required as stakeholders in a company demand AUP engagements to keep the company in check. Even in this case, requiring a strict level of independence of appearance applied in assurance engagements is still believed to be excessive. Thus, it would be desirable to apply a different level of independence, respectively.

Prohibiting Use of Unclear or Misleading Terminology

Q4. 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?

(1) We agree with the provision of guidance as to what unclear or misleading terminology means.

The guidance could support professional accountants and AUP clients clearly define relevant terminologies with more care when having a prior negotiation on AUP engagements, thereby contributing to clarifying AUP engagements by preventing AUP report users from misunderstanding procedures performed and relevant factual findings.

(2) As for prohibiting the use of unclear or misleading terminology, however, we disagree.

Based on the nature of AUP engagements, it would be most reasonable to allow that relevant parties make a negotiation and reach a consensus on AUP-related terminologies. After all, professional accountants and AUP clients perform the engagements according to procedures negotiated between them. In addition, the prohibition of unclear or misleading terminology could produce unnecessary limitations between parties, and, making worse, unclarify or mislead the description of AUP, itself, when terminologies most appropriate to the relevant engagements are prohibited. Still, it would be necessary to place a minimum level of limitation in use of terminologies, because terms, such as “assurance,” “present fairly,” and “audit,” which cannot be definitely used in AUP reports, could be misled as assurance.

AUP Engagements on Non-Financial Information

Q5. 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?

We believed that including non-financial information in the scope of ISRS 4400 and developing relevant pre-conditions are desirable, considering the on-going circumstance where AUP engagements on non-financial information are on the rise.

The inclusion and development could provide professional accountants performing AUP engagements on non-financial information with criteria on engagements scope and minimum requirements, which serve as a guidance to enable professional accountants to exercise appropriate judgment in performance of AUP engagements on non-financial information,

thereby resulting in facilitating AUP engagements on non-financial information.

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

Developing examples of AUP reports with the focus on the examples of subject matter information, suggested in the DP Appendix A, and providing them in the form of Appendix in ISRS 4400 could support professional accountants to perform AUP engagements on non-financial information.

In addition, as discussed in the below question 7, the use of experts in AUP engagements must be included when ISRS 4400 includes non-financial information, since AUP engagements on non-financial information is strongly associated with the use of experts.

Using the Work of an Expert

Q7. 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?

We support the Working Group's view that ISRS 4400 should include using the work of an expert and explain procedures in detail professional accountants should perform when using the work.

The complex business environment could pose a threat to professional accountants in their efforts to maintain professional competence required in the paragraph 7 of ISRS 4400 when performing AUP engagements especially from the sector where professional accountants do not acquire relevant professional knowledge. In this case, professional accountants need to use the work of an expert and ISRS 4400 should include the use to prevent the treat.

Going beyond the use of expert, it would be necessary to stipulate requirements professional accountants should perform in their use of experts, the work scope of experts, and the scope of responsibility between them.

Format of the AUP Report

Q8. What are your views regarding the Working Group's suggestions for improvements to the illustrative AUP report?

We are totally with the Working Group's suggestion. Presenting as a short form for AUP engagements involving relatively fewer procedures and as a tabular format for those involving many procedures could increase the understandability of report users, as we believe.

AUP Report Restrictions

Q9. Do you agree that the AUP report can be provided to a party that is not a signatory to the engagement letter as long as the party has a clear understanding of the AUP and the conditions of the engagement? If not, what are your views?

We agree with the question 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. After all, the party is the one who can use the relevant report with the accurate understanding of the AUP results.

Especially at a circumstance where the demands of AUP report is gradually increasing, the provision of report to the party that has a clear understanding of AUP and its conditions could increase the value of the report, thereby contributing to facilitating AUP engagements.

However, some commented as a minority opinion that the provision of AUP report to the party that is not a signatory to the engagement letter is not desirable, as it is practically difficult for the party to have a clear understanding of AUP and its condition, thereby necessitating placing definite restrictions in advance to AUP report users.

Three Possible Approaches to Restricting the AUP Report

Q10. In your view, which of the three approaches described in paragraph 44 is the most appropriate (and which ones are not appropriate)? Please explain.

We believe the third approach would be most appropriate. As mentioned in the paragraph 45, the third approach achieves an appropriate balance between addressing the concern regarding unintended parties misinterpreting findings while allowing the AUP report to be made widely available.

The first approach is also considered appropriate as well, to mitigate the risk of those who have not agreed to the procedures from misinterpreting the AUP report, as it could be seen as a minimum requirement to include a statement to whom the AUP report should be restricted.

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

No comment.

Recommendations Made in Conjunction with AUP Engagements

Q12. Do you agree with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings? Why or why not?

Not distinguishing recommendations from the procedures and factual findings would invite a circumstance where AUP report users mistakenly believe that the relevant recommendations provide assurance, just as audit opinions or review conclusions do.

Given this, we support the Working Group's view to clearly distinguish recommendations from the relevant procedures and factual findings.

Q13. 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.

No comment.

Multi-scope Engagements

Q14. What are your views as to whether the IAASB needs to address multi-scope engagements, and how should this be done? For example, would non-authoritative guidance be useful in light of the emerging use of these types of engagements?

We believe IAASB needs to engage more in addressing multi-scope engagements.

For one, some of the Korean government agencies request multi-scope engagements, and the nature of relevant engagements demand audit opinions or review conclusions along with the performance of AUP procedures. In this case, professional accountants in Korea have difficulties in practice, due to the lack of clarity as to which standard they should apply to their engagements between ISAs and ISRS 4400.

The provision of non-authoritative guidance could be more useful as compared to the status quo where relevant guidance does not exist at all. However, non-authoritative guidance is only confined to providing a direction on how multi-scope arrangements are performed. Not enough to provide a fundamental solution to authorize relevant procedures or methods even when professional accountants perform engagements according to non-authoritative guidance.

Thus, it would be necessary for IAASB to establish standards or provide authoritative guidance professional accountants can apply in their performance of multi-scope engagements.

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

We support the Working Group's view.

Just as the view, addressing AUP issues within ISRS 4400 and then addressing multi-scope engagement accordingly would be the most efficient way. For example, including the use of an expert in the AUP engagement standards but not including it in the multi-scope engagement standards could trigger more confusion to professional accountants using both of the standards.

To achieve consistency between AUP engagements and multi-scope engagements, it would be necessary to clearly address issues within AUP engagements and then move to multi-scope engagements.

As a minority opinion, however, some expressed that addressing AUP engagements and multi-scope engagements all together would be more efficient, citing that the temporary measure of providing non-authoritative guidance could rather create confusion in relation with multi-scope engagements and this revision issues are associated with assurance engagements, including professional judgment and independence.

We hope our comments would be useful for IAASB's project to explore the demand for agreed-upon procedures engagements and other services, and the implications for the IAASB's international standards. Please feel free to contact for further inquiries.

Thank you.