



KPMG IFRG Limited
15 Canada Square
London E14 5GL
United Kingdom

Tel +44 (0) 20 7694 8871
sylvia.smith@kpmgifrg.com

Matthew Waldron
Technical Director
International Auditing and Assurance
Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017-4649
USA

Our ref SS/288

29 March 2017

Dear Mr Waldron

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

We appreciate the opportunity to comment on the International Auditing and Assurance Standards Board's ("IAASB" or "Board") Discussion Paper: Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards (the "DP") dated November 2016. We have consulted with, and this letter represents the views of, the KPMG network.

General comments

While we generally support the need for updated professional standards which respond to market demands and emerging frameworks, we believe that, in updating ISRS 4400, the IAASB should focus its efforts on clarifying concepts and issues underlying Agreed-Upon Procedures (AUP) engagements that appear to be misunderstood by practitioners and users, rather than a wholesale rewrite or significantly expanding the scope of ISRS 4400 ("the Standard"). In our view, expanding the scope of the Standard to address multiple scope engagements may result in narrowing the difference between AUP engagements and limited assurance engagements. We view this outcome as undesirable, because it risks reducing the choice of engagement types available to users. We believe that the Standard should continue to provide a flexible framework to (i) enable the provision of reports on factual findings that respond to the needs of the market; and (ii) allow practitioners to help users derive some comfort from procedures performed on information, where the engagement scope does not necessarily meet the preconditions of an assurance engagement and providing a report of factual findings can add value.

By limiting the scope of changes to the Standard, the IAASB will be able to provide necessary updates without consuming a disproportionate amount of IAASB resources.

To facilitate your categorisation of responses, where applicable, we have cross-referenced our comments to the relevant questions in the DP.

Independence (Q3)

We recognize that some stakeholders believe that an independence requirement would add value to AUP engagements. Given that these engagements are designed to address the specific needs of users, we do not support requiring independence for all AUP engagements. Instead, we support an approach which allows for flexibility based on transparency and user requirements such as the EC Program Horizon 2020 cited in the DP, which requires the practitioner providing factual findings to be independent. In the absence of specific user requirements, we believe practitioners should continue to be required to disclose the fact that they are not independent in their reports when relevant.

We therefore agree with the IAASB that the current requirements of the Standard provide the right balance between the value of independence to some users and an unnecessarily restrictive requirement for others and do not believe the existing approach in the Standard requires any changes.

Non-financial information (Q5, Q6 and Q7)

Market demand for AUP engagements related to non-financial information is increasing and is, in practice, being met through engagements delivered applying the Standard by analogy.

We believe it would be helpful to expand the scope of ISRS 4400 so that it encompasses engagements relating to AUP on non-financial information as it will help practitioners address some of the more challenging aspects of such engagements, such as competencies and capabilities and using the work of an expert when relevant it will also lead to consistency in practice and provide transparency as to the standards actually applied in such engagements.

We also recommend for the Standard to include, in addition to the current example report, an example report for an AUP engagement performed on non-financial information.

Practitioner's involvement in the terminology used in describing the procedures (Q1, Q2 and Q4)

Unclear or misleading terminology

In our experience, there is a lack of understanding in the market of the nature of an AUP engagement, in particular why it is important that key stakeholders understand and agree on the procedures to be performed. As a result, procedures initially suggested by a stakeholder (e.g. the engaging party, preparer, management or a third party user) are often those which are not conducive to reporting factual findings

because their performance requires the use of professional judgement and/or they are subjective in nature.

While the Standard does not provide specific guidance relating to the extent to which a practitioner may be involved in getting agreement on the nature and extent of the procedures to be performed, in practice practitioners are often consulted in this regard. We view this type of involvement by practitioners as something that can enhance the usefulness and credibility of an AUP engagement. Therefore, we see value in practitioners providing input to the process of agreeing and scoping the procedures, as well as describing them in a language which is not misleading (i.e. not suggesting a level of assurance is provided) or unclear, based on their experience and understanding of the purpose of the AUP engagement and how users will use the factual findings. It may be helpful for the Standard to include examples of appropriate and inappropriate language to describe procedures.

We also believe that professional judgement has a role in the planning of AUP engagements and in helping practitioners provide critical challenge and support to the preparer/user who is determining the procedures as well as in the acceptance decision, particularly the judgement as to whether an AUP engagement is fit for purpose.

We therefore believe the Standard would be enhanced if it included guidance as to the professional judgement required and what constitutes evidence that (i) the practitioner has satisfied themselves that key stakeholders have sufficient understanding/agreement of the procedures and terms of the engagement; and (ii) the actions that may be taken, for example in the report of factual findings, if it is not practicable to get the understanding/agreement of some of these stakeholders such as third party users. We also recommend that the IAASB considers including some of the content of paragraph 12 of the DP in the Standard.

We also believe that the IAASB, as part of the process of developing and obtaining acceptance of an updated Standard on AUP, can play a role in enhancing user understanding of the nature and purpose of AUP to reduce requests for inappropriate scopes of work under the umbrella of AUP. An example would be requests from grant-awarding public sector bodies for AUP engagements that include procedures such as "review cost allocations to determine if they are reasonable".

We therefore recommend the IAASB consider liaising with other parties, including regulators, legislators, and national standards setters, in developing guidance (educational material) on the type and scope of services. This will facilitate bridging the expectation gap between users and practitioners when requesting and performing, AUP, assurance or advisory services, respectively.

Granularity in description of procedures and findings

We believe it is reasonable for practitioners to bring judgement to bear in determining the level of granularity necessary in the description of procedures performed – both in agreeing the scope of engagement and in the report of factual findings. In some cases,

it will be appropriate for every test to be described in detail; in other cases, it may be appropriate to group tests together under summary descriptions.

The principle that the description of a test should be such that another practitioner would be able to replicate the test from the description remains the optimum means of reducing the level of risk in an AUP engagement. Accordingly, we consider that the Standard should allow practitioners to apply a degree of judgement in describing the procedures and findings where the nature and scope of the procedures are well understood by users.

Report restrictions (Q9, Q10 and Q11)

While we believe it is important that reports with factual findings clearly explain that they are intended for specific users and may not be suitable for another purpose, we also believe that there should be some flexibility in whether this is achieved via a restriction on use and/or distribution. The flexibility should depend on the specific circumstances of the engagement, including the requirements of the relevant jurisdiction and also nature of the procedures to be performed and the granularity with which the procedures and findings are described in the report. Accordingly, we are supportive of option (c) of paragraph 44 in the DP.

Report format and multi-scope engagements (Q8, Q14 and Q15)

We understand that multi-scope engagements are becoming more common with increased regulatory oversight, and the resulting development of regulatory reporting frameworks.

We are aware of three types of engagement that could be considered to be “multi-scope” or hybrid:

1. Engagements where the practitioner is requested to provide limited or reasonable assurance on certain subject matter information, as well as reporting factual findings on an entirely distinct, but related, subject matter information. For example, when a practitioner reports on an audit of financial statements, as well as, factual findings on procedures required by a regulator;
2. Engagements where the practitioner is requested to provide limited or reasonable assurance on certain subject matter information, with the scope of their work including certain procedures specified by the preparer, and/or user, and their assurance report is required to include the findings from these procedures. For example, when a practitioner provides an assurance conclusion on financial information prepared pursuant to the terms and conditions of a grant, as well as factual findings on specific internal controls as specified in the grant conditions; and
3. Engagements where the preparer and/or third-party user's intention is to request an AUP, but the actual scope of work specified includes procedures that require

application of judgement and/or forming of subjective views. The practitioner agrees to provide a long-form narrative report including results of testing, professional views, and recommendations, but no opinion.

We believe that the above scenarios describe areas of emerging practice. While we do not believe that these scenarios should be within the scope of a revision to extant ISRS 4400, practitioners may benefit from more guidance in this area at some point in the future as practice in this area evolves. Accordingly, we recommend that IAASB monitor the development of such engagements and consider the need to develop additional guidance in this area at some point in the future.

Please contact Sylvia Smith at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

cc: Len Jui, KPMG