Agreed-Upon Procedures (AUP) – Report on Responses to Exposure Draft

Objectives of Agenda Item
The objectives of this Agenda Item are to:

- Inform the Board on responses to the Exposure Draft of ISRS 4400 (Revised), *Agreed-Upon Procedures Engagements*; and
- Obtain the Board’s views on the Task Force’s analyses and preliminary views of the issues presented.

I. Introduction

1. In November 2018, the IAASB issued its Exposure Draft of ISRS 4400 (Revised), *Agreed-Upon Procedures Engagements* (ED-4400). Fifty-two responses\(^1\) were received from stakeholders across a wide range of entities and different jurisdictions (Appendix 1 is a list of the respondents).

2. The responses were overwhelmingly supportive of ED-4400 with a significant majority of respondents agreeing that ED-4400 has been appropriately clarified and modernized to respond to the needs of stakeholders and address public interest.

Responses by Type of Entity

<table>
<thead>
<tr>
<th>Type of Entity</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulators and oversight authorities</td>
<td>3</td>
</tr>
<tr>
<td>National standard setters</td>
<td>9</td>
</tr>
<tr>
<td>Accounting firms</td>
<td>11</td>
</tr>
<tr>
<td>Public sector organizations</td>
<td>4</td>
</tr>
<tr>
<td>Member bodies and other professional organizations</td>
<td>24</td>
</tr>
<tr>
<td>Individuals and others</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total responses</strong></td>
<td><strong>52</strong></td>
</tr>
</tbody>
</table>

\(^1\) This paper uses the following descriptions to the number of responses:

- A respondent = 1 respondent.
- A few respondents = 2–3 respondents.
- Some respondents = 4–6 respondents.
- Several respondents = 7–14 respondents
- Many respondents = 15–26 respondents.
- Majority of respondents = 27–41 respondents (over 50% of total responses).
- Significant majority of respondents = 42 or more (over 80% of total responses).
Presentation of Respondents’ Comments

3. The Task Force has used the NVivo software to assist with the analysis of stakeholders’ comments. The following describes how the comments have been assembled to present the matters set out in the “Stakeholders’ Responses” sections of this Agenda Item.

4. The summaries of the respondents’ comments within this Agenda Item are used as a basis for supporting the changes contemplated by the Task Force to respond to the individual issues raised. These summaries do not include all of the matters raised by respondents. However, in arriving at its conclusions, all respondents’ comments have been considered by the Task Force.

5. To navigate between the actual responses and the respondents’ comments presented in this Agenda Item, IAASB Staff has prepared Excel summary spreadsheets for each relevant section (each Excel summary spreadsheet is in a tabular format setting out a listing of respondents and broad themes within the responses, and indicating if a respondent had made a comment within that broad theme). Each Excel summary spreadsheet also indicates where there is support for the relevant proposals as well as where individual or editorial comments were received (that may not have been noted specifically in this Agenda Item).

6. Each Excel summary spreadsheet links back to a report generated using NVivo (noted at the top of each Excel summary spreadsheet). The NVivo reports contain the respondents’ answers to specific questions in ED-4400. Accordingly, matters noted within this Agenda Item relating to respondents’ comments can be traced back to the Excel summary spreadsheet and the individual comments made in the NVivo report.

7. A listing of the relevant NVivo reports and the corresponding Excel spreadsheets can be found in Appendix 2.
II. Overview of Stakeholders’ Responses

8. All questions posed in ED-4400 were supported by either a majority or a significant majority of respondents.

Public interest

- A significant majority agreed (or agreed subject to comments on specific aspects of ED-4400) that ED-4400 has been appropriately clarified and modernized to respond to the needs of stakeholders and address public interest issues.\(^2\)

Professional judgment

- A significant majority agreed that professional judgment is not suspended in an AUP engagement, particularly at the engagement acceptance stage. However, many respondents indicated that professional judgment cannot be exercised when performing the procedures.

Practitioner’s objectivity and independence

- A significant majority agreed that there should not be a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective).
- A majority agreed with the enhanced transparency regarding the practitioner’s independence. However, many respondents disagreed with the requirement to state that the practitioner is not independent when there is no requirement for the practitioner to be independent. Many respondents also provided suggestions to further clarify the independence disclosures.

Findings

- A majority agreed with using the term “findings.”

Engagement acceptance and continuance

- A significant majority agreed with the IAASB’s proposals on the engagement acceptance and continuance conditions. Many respondents provided suggestions on additional acceptance and continuance conditions such as requiring the practitioner to determine that there is a rational purpose for the AUP engagement.

Practitioner’s expert

- A significant majority agreed with addressing the use of the work of a practitioner’s expert in ED-4400. However, there were concerns as to whether the practitioner possesses the competencies necessary to evaluate the expert’s work and whether the use of a practitioner’s expert may involve the application of significant professional judgment beyond that contemplated in an AUP engagement.

AUP report

- A significant majority agreed that the AUP report should not be restricted to parties that have agreed to the procedures to be performed.

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\(^2\) As set out in paragraph 6 of the Explanatory Memorandum, ED-4400 serves the public interest by responding to the needs of the IAASB’s stakeholders, providing clarity in the AUP report and reducing inconsistencies in the performance of AUP engagements.
• A majority agreed with the proposed structure and content of the AUP report. Many suggestions to enhance the AUP report were provided by respondents.

Noting the strong support for most of the material in ED-4400, the Task Force plans to finalize the standard expeditiously. Each of these key aspects is discussed in more detail in the Sections below.

The Sections that have garnered the most significant Task Force discussions were Professional Judgment (Section IV), Practitioner’s Objectivity and Independence (Section V) and Effective Date (Section XI).

III. Public Interest

Summary of Respondents’ Comments Relating to Public Interest (see NVivo Report 1A and Excel Summary 1B)

Stakeholders’ Responses

9. A significant majority of respondents, including the Monitoring Group (MG) respondent, agreed (or agreed subject to comments on specific aspects of the ED) that ED-4400 has been appropriately clarified and modernized to respond to the needs of stakeholders and to address public interest issues. Several respondents also emphasized, as a matter of public interest, the importance of educating the public on the value and limitations of an AUP engagement and how it differs from an assurance engagement. Education is discussed further in paragraphs 92-96 of this paper.

Task Force’s Preliminary Views

10. The Task Force acknowledges the strong support from stakeholders and will continue to place the public interest in the forefront when finalizing ISRS 4400 (Revised).

IV. Professional Judgment

Summary of Respondents’ Comments Relating to Professional Judgment (see NVivo Reports 2A and Excel Summary 2B)

Background

11. ED-4400 requires the practitioner to apply professional judgment in accepting and conducting an AUP engagement, taking into account the circumstances of the engagement. Application material is included to provide examples of areas where professional judgment may be applied, and to explain the unique role that professional judgment plays in an AUP engagement.

12. The last sentence of paragraph A16 of ED-4400 suggested that professional judgment is applied on a “sliding scale” when performing an AUP engagement: “The more a procedure requires professional judgment, the more the practitioner may need to consider whether the condition that the agreed-upon procedures and findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations is present.” Accordingly, professional judgment is expected to be limited (but not suspended) when performing the AUP. ED-4400 asked respondents whether they agreed with the definition, requirement and application material pertaining to professional judgment. The question on professional judgment in ED-4400 did not directly request input about whether professional judgment is applied differently at various engagement stages.
Responses to ED-4400

13. While ED-4400 did not pose a direct question on professional judgment by engagement stages, many respondents nonetheless provided comments on the exercise of professional judgment at various stages of the AUP engagement.

MG Response

14. The respondent generally agreed with the proposed requirement and application material on professional judgment but indicated that the exercise of professional judgment should also extend to the formulation and presentation of findings. The reason is that some subject matters, such as compliance with contracts and regulations, may involve professional judgment in determining whether the letter and spirit of a contract or regulations have been complied with.

Other Stakeholders’ Responses

Professional Judgment When Accepting an AUP Engagement

15. While many suggestions are provided to further clarify the role of professional judgment, a significant majority of respondents generally agreed (or did not express disagreement) with the proposed requirement and application material on professional judgment, particularly as they relate to engagement acceptance. The respondents indicated that the proposed requirement and application material appropriately reflect how professional judgment is exercised in practice.

Professional Judgment When Performing the Procedures

16. However, many respondents (including respondents who expressed general agreement as well as those who disagreed with the proposals in ED-4400) indicated that professional judgment cannot be exercised (or is exercised in a very limited manner) when performing the procedures. Reasons in support of this position include:

- The practitioner should agree the nature, timing and extent of the procedures in sufficient detail such that no professional judgment is necessary when performing the procedures. Exercising professional judgment when performing the procedures would blur the line between an AUP engagement and an assurance engagement; and

- Professional judgment is exercised in “making informed decisions about the courses of action that are appropriate in the circumstances.” Therefore, professional judgment is not relevant when there are no reasonable alternative courses of action. Given the premise that different practitioners performing the same procedures are expected to arrive at the same results, there can be no reasonable alternative courses of action available to the practitioner when performing the procedures (in other words, if there are alternative courses of action in performing a procedure, it cannot lead to the same result).

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3 Paragraph A10 of ED
17. The table below provides a summary of the respondents’ views on the application of professional judgment (PJ) when performing a procedure:

<table>
<thead>
<tr>
<th>View of Respondents</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expressed the view that there is limited or no PJ when performing a procedure</td>
<td>19</td>
<td>~37%</td>
</tr>
<tr>
<td>Explicitly agreed or did not express disagreement with proposals in ED-4400 relating to PJ when performing a procedure</td>
<td>25</td>
<td>~49%</td>
</tr>
<tr>
<td>Provided comments that were unclear as to whether the respondent supports or is against the proposals in ED-4400 relating to PJ when performing a procedure</td>
<td>7</td>
<td>~14%</td>
</tr>
</tbody>
</table>

Professional Judgment When Reporting Findings

18. Of the few respondents who commented specifically on the role of professional judgment when reporting findings, a few respondents agreed that ED-4400 appropriately reflects the role professional judgment plays in reporting. One respondent expressed the view that there should be no professional judgment when reporting findings since different practitioners performing the AUP engagement should arrive at the same findings. One respondent shared the MG respondent’s view that the application of professional judgment should be broader than as set out in ED-4400. In particular, the respondent indicated that the practitioner may prepare a summary of the individual findings, for example by using wording such as “the internal guidelines are followed for twelve investigative expense reports.” The Task Force’s view on this example is discussed in the Task Force’s preliminary view section below.

Examples and Definition of Professional Judgment

19. Several respondents also suggested further examples of when professional judgment may be exercised in an AUP engagement, including:

Agreeing the AUP engagement
- Determining whether there is a rational purpose for the AUP engagement; and
- Determining whether to use an expert (or whether the practitioner is the right person to conduct the engagement).

Performing the AUP engagement
- Determining appropriate actions if the practitioner becomes aware of actual or suspected fraud or non-compliance with laws and regulations;
- Determining appropriate actions if, during the course of the engagement, the practitioner becomes aware of procedures or findings that are not appropriate for the purpose of the engagement, are misleading or cannot be described objectively such that the preconditions of the engagement are called into question; and
- Agreeing the modifications to AUP during the course of the engagement (including the determination of whether the modified procedures continue to meet the engagement acceptance and continuance conditions).
Reporting

- Describing the AUP and findings at an appropriate level of granularity in the AUP report.

20. In addition, several respondents indicated that the definition of professional judgment is unclear. For example, it is not clear:
   - What are the “professional standards” referred to in the definition. The IAASB’s *Glossary of Terms* currently defines “professional standards” only in the context of an audit engagement; and
   - How professional skepticism is considered in the context of exercising professional judgment.

*Task Force’s Preliminary Views*

21. In light of the respondents’ comments, the Task Force continues to support the position adopted in ED-4400 that professional judgment is relevant in an AUP engagement. The Task Force will take a closer look at where, and how, professional judgment is applied when performing the procedures. Concerning the application of professional judgment when reporting findings, the Task Force notes that paragraph A15 of ED-4400 already contemplates the practitioner applying professional judgment when reporting findings. Further, with reference to the example in paragraph 18, the Task Force notes that providing a summary of the individual findings is appropriate as the summary represents factual results based on the procedures performed. The Task Force will consider various measures to further clarify the role professional judgment plays in an AUP engagement such as:
   - Adding introductory paragraphs in the standard to explain the differences between an AUP engagement and an assurance engagement, including how professional judgment is applied differently;
   - Clarifying whether, and if so, how, professional judgment is applied at each stage of an AUP engagement, particularly when performing procedures and reporting findings.

*Matter for IAASB Consideration*

1. The IAASB is asked for its views on the application of professional judgment in an AUP engagement.

V. Practitioner’s Objectivity and Independence

*Summary of Respondents’ Comments Relating to Practitioner’s Objectivity and Independence (see NVivo Reports 3A and 4A and Excel Summaries 3B and 4B)*

*Precondition for, and Determination of, Independence*

*Background*

22. Consistent with the International Ethics Standards Board for Accountants (IESBA)’s *Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), ED-4400 did not include a precondition for the practitioner to be independent when performing an AUP engagement nor a requirement for the practitioner to determine independence. While ED-4400 did not require the practitioner to be independent, the practitioner may be required to be independent, for example, by the terms of the engagement or by relevant ethical requirements applicable in a particular jurisdiction.
MG Response

23. The respondent agreed that the fundamental ethical principle of objectivity is of critical importance in an AUP engagement. However, the respondent has encouraged the IAASB to also include a reference to integrity. In relation to independence, the respondent cautioned that in their own capacity as an international financial institution, it would not accept an AUP engagement performed by a practitioner who is not independent. Nonetheless, the MG respondent agreed that it is not necessary to include a “blanket” precondition for the practitioner to be independent for all AUP engagements.

Other Stakeholders’ Responses

24. A significant majority of respondents agreed that there should not be a precondition for the practitioner to be independent, and that the practitioner should not be required to determine independence if there are no requirements for the practitioner to be independent. These respondents cited similar reasons to those set out in the Explanatory Memorandum of ED-4400:

- Given that the practitioner is reporting on factual results from performing AUP, independence is less important as it is unlikely that factual results would be susceptible to potential bias.
- Not requiring independence provides flexibility for practitioners to perform AUP engagements when the engaging party and intended user do not require the practitioner to be independent. This flexibility is particularly important in the small and medium practice (SMP) environment. SMPs often conduct compilation engagements for small- and medium-sized entities for which independence is not required and not assessed by the practitioner.
- The IESBA Code does not require a practitioner performing non-assurance engagements such as AUP engagements to be independent. Including a precondition for independence in ED-4400 would result in inconsistencies with the IESBA Code and may result in confusion.
- In the absence of independence requirements in the IESBA Code, there are no generally accepted criteria for determining independence.

25. Several respondents expressed similar views as the MG respondent, indicating that the practitioner should be independent for reasons such as:

- Practitioner’s independence enhances the value of the AUP engagement; and
- Intended users may presume that the practitioner is independent.

26. Of the respondents who agreed that there should not be a precondition for the practitioner to be independent, some nonetheless suggested that the practitioner should be required to determine whether the practitioner is independent because it will:

- Help inform the practitioner as to whether there are factors that affect the practitioner’s ability to be objective and whether safeguards are necessary; and
- Allow the practitioner to make a statement in the AUP report as to whether the practitioner is, or is not, independent. This information may be important to the intended users of the AUP report.

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4 This MG response relates to both Questions 3 and 4 of ED-4400 (Independence Precondition and Independence Disclosure)
5 ED–4400, paragraph A12
27. The following table provides a summary of the respondents’ views on the ED-4400 proposals regarding the independence precondition and determination of independence:

<table>
<thead>
<tr>
<th>As proposed in ED-4400</th>
<th>Agree with ED-4400</th>
<th>Disagree with ED-4400</th>
</tr>
</thead>
<tbody>
<tr>
<td>No precondition for practitioner to be independent</td>
<td>43 / ~83%</td>
<td>9 / ~17%</td>
</tr>
<tr>
<td>No requirement for the practitioner to determine whether the practitioner is independent</td>
<td>39 / ~75%</td>
<td>15 / ~25%</td>
</tr>
</tbody>
</table>

28. While expressing agreement that there should be no precondition for the practitioner to be independent, several respondents provided further suggestions for the IAASB’s consideration, including:

- Directing practitioners to consider whether, in the circumstances of the engagement, independence would be appropriate (even if the practitioner is not required to be independent);
- Requiring the practitioner to determine independence at the engagement acceptance stage if relevant ethical requirements, laws or regulations or terms of the engagement require the practitioner to be independent; and
- Working with the IESBA to further explore independence issues when performing an AUP engagement.

**Task Force’s Preliminary Views**

29. In light of the strong support for the approach as proposed in ED-4400—that is, not including a precondition for the practitioner to be independent and not requiring the practitioner to determine independence (if the practitioner is not otherwise required to be independent), the Task Force proposes to retain the approach in ED-4400. The reasons for this approach, as presented in the explanatory memorandum, continue to be valid. Further, if the engaging party or other intended users (such as financial institutions) wish for the practitioner to be independent, the practitioner’s independence (and the criteria for determining independence) can be agreed to in the terms of engagement. The Task Force also notes that in many cases, the AUP engagement is performed by the auditor of the entity’s financial statements, where the entity is the engaging party and responsible party for the AUP engagement. In such cases, the auditor is independent for the purpose of the audit engagement and may be independent for the purpose of the AUP engagement as well.

**Matter for IAASB Consideration**

2. The IAASB is asked for its views on the precondition for, and determination of, independence.

**Disclosure of Independence**

**Background**

30. In developing ED-4400, the IAASB’s prevailing view is that transparency regarding the practitioner’s independence (or lack thereof) in the AUP report is essential to the public interest. ED-4400 addressed the need for transparency by requiring certain disclosures depending on whether:

(a) the practitioner is required to be independent; and

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6 ED-4400, paragraph 15 of the explanatory memorandum
(b) whether the practitioner is, indeed, independent as reflected in the following table:

<table>
<thead>
<tr>
<th>Is practitioner independent?</th>
<th>Is practitioner required to be independent?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unknown (i.e., not determined)</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>N/A: Practitioner is not able to perform the engagement because the practitioner has not determined independence.</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>AUP report: Statement that the practitioner is independent and the basis therefor.</td>
</tr>
</tbody>
</table>

**Other Stakeholders’ Responses**

31. Subject to comments on the independence precondition, a majority of respondents agreed with the enhanced transparency in ED-4400.

32. Many respondents disagreed with the requirement for the practitioner to state in the AUP report when the practitioner is not independent, if the practitioner is not required to be independent. These respondents suggested that, as long the practitioner is not required to be independent, a simple statement that the practitioner is not required to be independent is sufficient. These respondents indicated that, if the practitioner is not required to be independent, the additional statement that the practitioner is not independent:
   - Is not useful or relevant;
   - Diminishes the perceived value of the findings; and
   - May cause confusion to AUP report users due to the lack of uniformity in reporting resulting from the absence of generally accepted criteria for determining independence.

33. Some respondents provided suggestions to clarify the independence disclosures or to further enhance transparency, for example, on:
   - Circumstances when the practitioner has determined that the practitioner is or is not independent even though the practitioner is not required to be independent;
   - Circumstances when the practitioner has not performed an independence assessment but is aware that the practitioner is not independent; and
   - Reasons for which the practitioner is not independent.
34. The table below provides a summary of the resulting statement in the practitioner’s report based on the diverging views of respondents in the circumstance when the practitioner is not required to be independent and is not independent.

<table>
<thead>
<tr>
<th>Statement in the practitioner’s report</th>
<th>Removing requirement to state that the practitioner is not independent (paragraph 32 above)</th>
<th>As proposed in ED-4400: statement that the practitioner is not independent but no explanation as to why</th>
<th>Enhancing transparency by providing additional disclosures as to why the practitioner is not independent (paragraph 33 above)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondents who commented</td>
<td>16 respondents</td>
<td>28 respondents</td>
<td>7 respondents</td>
</tr>
</tbody>
</table>

35. In addition, some respondents requested clarification on the application of the independence requirements when there are multiple engaging parties, particularly when the engaging party is not responsible for the subject matter on which the AUP are performed.

Task Force’s Preliminary Views

36. When the practitioner is not required to be independent and is not independent, the Task Force agrees with the view that the disclosure as required in ED-4400 may be confusing. The Task Force recognizes that there are at least two alternative approaches to address the potential confusion:

- Alternative 1: Removing the requirement to state that the practitioner is not independent; or
- Alternative 2: Enhancing transparency surrounding:
  - Whether the practitioner has determined independence; and
  - The circumstances as to why the practitioner is not independent, including circumstances when the practitioner is aware that the practitioner is not independent without having performed an independence determination (for example, the practitioner holds a significant financial interest in the responsible party) and circumstances when the practitioner has determined that the practitioner is not independent (for example, the practitioner has determined that the practitioner is not independent when previously considering whether to accept an assurance engagement).
37. The table in ED-4400, as set out in paragraph 30 above, would be restated along the following lines depending on the alternative selected:

<table>
<thead>
<tr>
<th>Is practitioner required to be independent?</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unknown (i.e., not determined)</td>
<td>No Applicable: Practitioner is unable to perform the agreed-upon procedures engagement because the practitioner has not determined independence.</td>
<td>Alternative 1: Statement that the practitioner is not required to be independent.</td>
</tr>
<tr>
<td></td>
<td>Alternative 2: Statement that the practitioner is not required to be independent and that the practitioner has not determined independence.</td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>Statement that the practitioner is independent and the basis therefor (i.e., the independence criteria against which the practitioner determined independence).</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>Not applicable: Practitioner is not able to perform the agreed-upon procedures engagement because the practitioner is not independent.</td>
<td>Alternative 1: Statement that the practitioner is not required to be independent.</td>
</tr>
<tr>
<td></td>
<td>Alternative 2: Statement that, although the practitioner is not required to be independent, the practitioner is not independent. Explanation as to why the practitioner is not independent.</td>
<td></td>
</tr>
</tbody>
</table>

38. On the one hand, it is normally in the public interest to enhance transparency. On the other hand, given that the IESBA Code does not require independence for AUP engagements, removing the requirement to state that the practitioner is not independent is likely the most effective way to avoid confusing messages being included in the AUP report. The Task Force has mixed views on which approach is more appropriate. On balance, the Task Force is leaning toward enhancing transparency surrounding the circumstance as to why the practitioner is not independent—i.e., Alternative 2 in the Table above. The Task Force would appreciate any direction from the Board on this issue.

39. The Task Force will also clarify the practitioner’s responsibilities when there are multiple engaging parties, for example, during the engagement acceptance and the reporting phases.

Matter for IAASB Consideration

3. The IAASB is asked for its views on the independence disclosure requirements.
VI. Findings

Summary of Respondents’ Comments Relating to Findings (see NVivo Report 5A and Excel Summary 5B)

Background

40. Extant ISRS 4400\(^7\) refers to “factual findings.” To address a concern that the term “factual findings” may imply that there might be findings that are “not factual” and to better communicate that the results from performing the AUP must be factual, ED-4400:

- Uses the term “findings” instead of “factual findings;”
- Includes a definition that “findings are the factual results of procedures performed. Findings are capable of being objectively verified and objectively described. Accordingly, references to findings exclude opinions or conclusions in any form as well as any recommendations that the practitioner may make;” and
- Includes application material to explain that factual results are capable of being objectively described and objectively verified, which means that different practitioners performing the same procedures are expected to arrive at the same results.

MG Response

41. The respondent agreed with the term “findings” but indicated that the definition of “findings” is too restrictive. The respondent indicated that some findings might require the application of professional judgment.

Other Stakeholders’ Responses

42. A majority of respondents agreed with the term “findings” for the reasons stated in ED-4400. However, several respondents preferred to revert to the term “factual findings.” Reasons in support of this position include:

- The term “findings” is not necessarily “factual” in the English language. For example, "findings" may be used synonymously with “conclusion;”
- The term “findings” is sometimes used in other IAASB pronouncements to refer to findings that go beyond those that are factual in nature. For example, the term “significant findings” in ISA 260 (Revised)\(^8\) involves the auditor’s judgment as to whether the findings are significant;
- The term “findings” is commonly used in consulting and advisory services where a level of professional judgement is applied in the conduct of those engagements; and
- While the term “findings” is defined in the standard, the definition is not available to engaging parties or intended users. The removal of the term “factual” may give engaging parties and intended users the impression that “findings” can go beyond those that are factual in nature.

If the term “findings” is retained, a few respondents suggested that the definition of “findings” be included in the engagement letter and the AUP report.

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\(^7\) ISRS 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

\(^8\) ISA 260 (Revised), *Communication with Those Charged with Governance*
43. A few respondents expressed a similar view to that of the MG respondent. The respondents indicated that the practitioner should be allowed to provide a “conclusion” on the items on which the AUP are performed (but not on the subject matter as a whole).

44. The following table provides a summary of the respondents’ views on use of the term “findings” versus “factual findings”.

<table>
<thead>
<tr>
<th>Findings</th>
<th>Factual Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>39 respondents / ~76%</td>
<td>12 respondents / ~24%</td>
</tr>
</tbody>
</table>

**Task Force’s Preliminary Views**

45. The reasons in support of using the term “findings” raised by the respondents were previously considered by the Task Force in developing ED-4400. The Task Force continues to be of the view that use of the term “findings” is appropriate.

46. Use of the term “factual findings” implies that some findings may not be factual, which inadvertently promotes different interpretations of the term “findings.” The different interpretations of “findings” could result in confusion over the practitioner’s involvement in an AUP engagement. In contrast, using the term “findings” throughout the standard (and defining “findings” as “factual results of procedures performed…”) helps to promote the view that findings in an AUP engagement are, by their nature, factual. Further, in jurisdictions where the use of the term “findings” may be problematic, paragraph A11 of ED-4400 permits the use of the term “factual findings.”

47. The Task Force agrees with the suggestion to enhance transparency on the term “findings”. The Task Force intends to require the practitioner to include in the engagement letter and the AUP report an explanation of the term “findings,” with the objective to clearly inform the engaging party and other intended users that findings in the AUP report refer to the factual results of procedures performed.

**Matter for IAASB Consideration**

4. The IAASB is asked for its views on the use of the term “findings.”

**VII. Engagement Acceptance and Continuance**

*Summary of Respondents’ Comments Relating to Engagement Acceptance and Continuance (see NVivo Report 6A and Excel Summary 6B)*

**Background**

48. Extant ISRS 4400 does not require any engagement acceptance and continuance conditions be present before accepting an AUP engagement. ED-4400 proposed that three engagement acceptance and continuance conditions be met before accepting the engagement to reinforce the unique characteristics of an AUP engagement, namely:

- That the engaging party acknowledges that the expected procedures to be performed by the practitioner are appropriate for the purpose of the engagement;

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9 Paragraph A11 of ED-4400 states, “In some jurisdictions, the term ‘findings’ may be replaced with ‘factual findings.’”
• That the procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations; and
• That the practitioner obtains an understanding of the purpose of the engagement and not accept the engagement if the practitioner is aware of any facts or circumstances suggesting that the procedures the practitioner is being asked to perform are inappropriate for the purpose of the AUP engagement.

49. ED-4400 also proposed application material to provide guidance on the engagement acceptance conditions, including:

• Guidance on what constitutes appropriate terminology, and what constitutes unclear or misleading terminology; and
• Steps a practitioner may take to address such terminology.

MG Response

50. The respondent agreed with the proposed requirements.

Other Stakeholders’ Responses

51. A significant majority of respondents agreed with the engagement acceptance and continuance conditions.

52. Many respondents provided suggestions on additional acceptance and continuance conditions such as requiring the practitioner to determine that:

• There is a rational purpose for the engagement, which includes consideration of intended users’ needs and whether an AUP engagement (as opposed to another engagement such as an assurance engagement) is appropriate;
• The engagement team, and any practitioner’s experts who are not part of the engagement team, have appropriate competence and capabilities to perform the AUP engagement. This includes whether there is a clear rationale for the practitioner’s involvement in the engagement (as opposed to having the engaging party directly engage an expert); and
• The practitioner is independent (if the practitioner is required to be independent).

53. Other suggestions provided include:

Reinforcing certain matters

• Emphasizing the role of professional judgment at the engagement acceptance stage (such as clarifying that professional judgment regarding the appropriateness of the procedures involves determining that the procedures will not result in a report that may convey misleading information).
• Reminding practitioners that the engagement acceptance and continuance conditions (for example, that the AUPs and findings can be described objectively) apply throughout the engagement and not just at the engagement acceptance stage.
Adding, removing or clarifying certain matters

- Adding certain elements to the required terms of engagement (such as responsibilities of the engaging party and the practitioner).
- Removing certain elements from the required terms of engagement (such as the identification of intended users) as the identification of intended users may result in legal issues in certain jurisdictions.
- Adding, removing or clarifying certain words in the lists of potentially appropriate and inappropriate words in paragraphs A22 and A23 of ED-4400 respectively. For example, on the word “material” in paragraph A23, clarify that while the concept of materiality is not applicable in an AUP engagement, quantitative thresholds for determining factual deviations may be agreed with the engaging party.

Repositioning certain paragraphs

- Placing paragraph 21 before paragraph 20 of ED-4400 to improve the logical flow of the standard.

54. Some respondents expressed a concern that the engagement acceptance and continuance conditions seem to imply that the procedures to be performed are “set in stone” at the beginning of the engagement. For an AUP engagement in which the procedures are developed and revised during the engagement, the requirements in paragraphs 23 and 24 of ED-4400 do not reflect the iterative process that often exists in practice to agreeing the terms of the engagement.

55. Some respondents disagreed (or did not explicitly express agreement) with the engagement acceptance and continuance conditions because the engagement acceptance and continuance conditions did not:

- Include some of the matters discussed in paragraphs 52-53 above; or
- Address the concern discussed in paragraph 54 above.

Task Force’s Preliminary Views

56. The Task Force will consider suggestions to improve the engagement acceptance and continuance conditions. On the issue that these conditions are seemingly “set in stone” at the beginning of the engagement, the Task Force continues to be of the view that the practitioner should be required to agree the terms of the engagement, including the expected procedures to be performed, before starting the engagement (and before performing modified procedures). Such a requirement is consistent with extant ISRS 4400. More importantly, the Task Force is of the view that agreeing the expected procedures to be performed before starting the engagement helps to avoid any misunderstanding, which is in the public interest.

57. Nonetheless, the Task Force intends to emphasize that meeting the engagement acceptance and continuance conditions remains an iterative process during the AUP engagement. The Task Force contemplates adding examples of simple and informal ways of documenting modified agreed upon procedures prior to the practitioner performing the procedures. Examples may include obtaining written representations from the engaging party that the engaging party agrees to the modified procedures and acknowledges that the modified procedures are appropriate for the purpose of the AUP engagement.
Matter for IAASB Consideration

5. The IAASB is asked for its views on the engagement acceptance and continuance conditions.

VIII. Using the Work of a Practitioner’s Expert

Summary of Respondents’ Comments Relating to Using the Work of a Practitioner’s Expert (see NVivo Report 7A and Excel Summary 7B)

Background

58. ED-4400 included requirements and application material to provide guidance on how a practitioner’s expert can assist the practitioner in an AUP engagement.

59. On the issue of referring to a practitioner’s expert in an AUP report, ED-4400 proposed a similar approach as ISAE 3000 (Revised)\(^{10}\) – requiring the wording of the AUP report to not imply that the practitioner’s responsibility is reduced because of the involvement of the expert.

MG Response

60. The respondent expressed two concerns that were shared by a few / several respondents respectively:

- The lack of distinction between using the work of a practitioner’s external expert and a practitioner’s internal expert may cause confusion. For example, it is not clear whether, and if so how, the requirements and application material apply to an internal expert who is already subject to the firm’s system of quality control; and

- The need to assess whether the practitioner possesses the competencies necessary to evaluate the expert’s work, and to not accept the engagement if the practitioner does not have sufficient competencies.

Other Stakeholders’ Responses

61. A significant majority of respondents expressed general agreement with the proposed materials on the use of a practitioner’s expert. The use of a practitioner’s expert is likely to be more prevalent in the future with the expanded scope to cover non-financial subject matters and technological developments such as increased use of artificial intelligence.

62. Several respondents shared the MG respondent’s concern regarding the need to assess whether the practitioner possesses the competencies necessary to evaluate the expert’s work. The respondents suggested that this concern may be addressed by strengthening the engagement acceptance conditions to include considering whether the practitioner has sufficient knowledge of the subject matter to accept the engagement.

63. In addition to the concerns raised by the MG respondent organization, other issues include:

- Definition of a practitioner’s expert

- It is unclear why a practitioner’s expert is defined as having “expertise in a field other than assurance;”

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\(^{10}\) ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information
Professional judgment involved when using a practitioner’s expert

- The use of a practitioner’s expert may imply the application of significant professional judgment beyond that contemplated in an AUP engagement. Additional requirements or application material or changes to the proposed application material may be necessary to avoid this implication. For example, by reinforcing that the expert’s findings must be described objectively, in terms that are clear, not misleading or subject to varying interpretations, and removing the use of a lawyer as an example of an expert;

Agreeing the work to be performed by the practitioner’s expert

- The practitioner should be required to agree to the nature, timing and extent of work to be performed by the expert;
- The practitioner should be required to agree the use of an expert with the engaging party so that the engaging party is able to acknowledge that the procedures are appropriate for the purpose of the engagement;

Further clarity when using the work of a practitioner’s expert

- Similar to the issue regarding the lack of distinction between using the work of a practitioner’s external expert and a practitioner’s internal expert, the lack of distinction between using the work of a practitioner’s expert to support the practitioner’s procedures and using a practitioner’s expert to perform the procedures may also cause confusion;
- The need to emphasize that the findings reported by the expert are the practitioner’s findings – i.e., there is no reduction of the practitioner’s responsibility for the findings; and
- It is unclear when a practitioner would use an expert. For example, the use of a procurement officer in the illustrative AUP report seems unnecessary.

64. Some respondents commented on the issue of referring to a practitioner’s expert in an AUP report. Of these respondents, a few respondents suggested that the AUP report should:

- Refer to the expert;
- Describe the technical competence involved; and
- Clarify the respective responsibilities of the practitioner and the expert.

65. However, a few respondents expressed an opposing view that reference to the expert should be prohibited unless required by law or regulation. The respondents are of the view that any reference to the expert will imply that the practitioner’s responsibilities are diminished.

66. The following table provides a summary of the respondents’ views on referring to an expert in the AUP report.

<table>
<thead>
<tr>
<th>Require reference to an expert in the AUP report</th>
<th>Permit (neither require nor prohibit) reference to an expert (as proposed in ED-4400)</th>
<th>Prohibit reference to an expert in the AUP report</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 respondents / ~6%</td>
<td>45 respondents / ~88%</td>
<td>3 respondents / ~6%</td>
</tr>
</tbody>
</table>
67. Some respondents disagreed (or did not explicitly express agreement) with the proposals on the use of a practitioner’s expert as ED-4400 did not address some of the concerns discussed above.

Task Force’s Preliminary Views

68. On the issue of referring to the practitioner’s expert in the AUP report, the Task Force’s preliminary view is to retain the proposed approach of neither requiring nor prohibiting a reference to the practitioner’s expert. This approach is consistent with the preference of most respondents. The proposed approach provides flexibility for the practitioner to report appropriately depending on the circumstances.

69. The Task Force will consider further clarifications to the requirements and the application material on using the work of a practitioner’s expert to address respondent’s concerns. In making such clarifications, the Task Force will consider the unique characteristics of an AUP engagement while being careful to avoid inconsistencies with other IAASB pronouncements. For example, to strengthen the engagement acceptance conditions for an AUP engagement that may require the use of a practitioner’s expert, the Task Force may develop requirements or application material along the following lines:

<table>
<thead>
<tr>
<th>Unique characteristics of an AUP engagement</th>
<th>As an AUP engagement may involve non-financial subject matters, it is important that the practitioner considers whether the practitioner will be able to be involved in the work of a practitioner’s expert to an extent that is sufficient to accept responsibility for the findings ultimately included in the AUP report.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• If the practitioner is able to accept responsibility for the findings, the practitioner may accept the AUP engagement.</td>
</tr>
<tr>
<td></td>
<td>• If the practitioner is not able to accept responsibility for the findings, the practitioner may agree with the engaging party to limit the scope of the AUP engagement to procedures for which the practitioner can appropriately take responsibility. The engaging party may separately engage the expert to conduct the remaining procedures.</td>
</tr>
</tbody>
</table>

| Avoid inconsistencies with other IAASB pronouncements | Similar to the ISAs, which do not require the auditor to agree the use of the auditor’s expert with the entity, the Task Force’s preliminary view is not to require the practitioner to agree the use of the practitioner’s expert with the engaging party (although the practitioner may choose to do so). The practitioner would only be required to agree the terms of the engagement with the practitioner’s expert. |


Matter for IAASB Consideration

6. The IAASB is asked for its views on the using the work of a practitioner’s expert.

IX. AUP Report

Summary of Respondents’ Comments Relating to AUP Report (see NVivo Reports 8A and 9A and Excel Summaries 8B and 9B)

Background

70. Extant ISRS 4400 requires the practitioner’s report to include a statement that the report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results. It is unclear who the “parties that have agreed to the procedures to be performed” are. A narrow interpretation is that the AUP report is restricted to signatories to the engagement letter. To address broad concerns that AUP reports are often required to be provided to users who are not parties to the terms of the engagement, ED-4400 no longer requires the AUP report to include a statement that the report is restricted.

71. ED-4400 also sets out additional matters to be included in an AUP report to enhance the transparency of the engagement. In addition, ED-4400 includes new illustrative reports to provide examples of how the procedures and findings may be described in an AUP report.

MG Response

72. Although in agreement to not impose a requirement to restrict the distribution of the report, the respondent encouraged the IAASB to recognize that an AUP report may contain confidential information that may cause the practitioner to restrict the AUP report. The respondent also suggested that the structure of the AUP report could give more emphasis to the results of the engagement and less emphasis on standard language. The respondent provided suggestions (similar to principles included in ISA 700 (Revised)11) such as:

- Moving the presentation of the procedures and findings upfront and standard wording (for example, the sentence on the firm’s system of quality control) to the back of the report; or
- Permitting the practitioner to include the presentation of exceptions in the body of the AUP report and the detailed findings in an appendix to the report. This will allow the body of the AUP report to focus on exceptions, which are of high information value to the intended user.

The respondent also encouraged the development of further examples of AUP reports dealing with AUP engagements of different nature.

Other Stakeholders’ Responses – Restriction of the AUP report

73. A significant majority of respondents agreed with the proposal to no longer require a restriction to be placed on the AUP report. Respondents argued that the AUP report is often provided to intended users other than the engaging party such as regulators who did not explicitly agree to the procedures performed. Requiring restrictions to be placed on the AUP report will significantly reduce its usefulness.

11 ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements
74. However, some respondents disagreed and indicated that the AUP report should be restricted to the intended users to avoid other users misunderstanding the AUP engagement and its findings. A respondent agreed that an outright prohibition on the distribution or use of the AUP report would be unduly restrictive. The respondent suggested that the AUP report be restricted unless the restriction is prohibited by law or regulation.

75. The following table provides a summary of the respondents’ views on restriction of the AUP report.

<table>
<thead>
<tr>
<th>No restriction (as proposed in ED-4400)</th>
<th>Restrict the AUP report</th>
</tr>
</thead>
<tbody>
<tr>
<td>44 respondents / ~87%</td>
<td>7 respondents / ~13%</td>
</tr>
</tbody>
</table>

76. A few respondents also raised the issue of restriction on use versus restriction on distribution. Key views expressed include:

- It may be practicable to restrict the use of the AUP report but not the distribution of the report. Effectively restricting the distribution of the AUP report may be difficult in light of modern technology and possible legal or regulatory requirements for the AUP report to be made available publicly.

- In some common law jurisdictions, it is possible to restrict the use of the AUP report but not its distribution. In some civil law jurisdictions, it is possible to restrict the distribution of the AUP report but not its use. Therefore, the only viable option is the approach taken in the ED (which is also consistent with that taken in ISA 800\(^\text{12}\)).

77. Many respondents also provided suggestions to enhance considerations relating to the restriction of the AUP report, including:

- Application material should be developed to provide guidance on when the practitioner may wish to restrict (or not restrict) the AUP report. For example:
  - Do the agreed-upon procedures and findings involve confidential information?
  - Is there an elevated risk of users (other than intended users) misunderstanding the purpose of the AUP engagement and or interpreting the findings as providing assurance?
  - Is the intended user management of the entity (i.e. the engaging party) or an external party? In other words, is the AUP engagement designed with external parties in mind?

- Restriction on the AUP report, if any, should be agreed with the engaging party;

- More prominence should be given to the purpose of the AUP report and the statement that the AUP report may not be suitable for another purpose as well as any restrictions placed on the AUP report; and

- The application material should be clarified that it is the practitioner’s decision as to whether to place restriction on the use or distribution of the AUP report.

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\(^{12}\) ISA 800, Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks
Other Stakeholders’ Responses – Structure and Content of the AUP report

78. Subject to previously expressed comments (such as those relating to disclosure of independence, AUP report restriction and reference to an expert), a majority of respondents expressed general agreement with the proposed structure and content of the AUP report.

79. The Task Force also received suggestions to further improve the AUP report, including:

- Aligning the structure of the AUP report with practitioners’ reports in other IAASB pronouncements, for example, by incorporating headings and subheadings in the AUP report.
- Enhancing the understandability of the AUP report by, for example, replacing the statement that the “AUP engagement does not constitute a reasonable or limited assurance engagement” with a simple statement that the AUP engagement does not provide assurance.
- Requiring (or encouraging) additional matters to be included in the AUP report such as:
  - Identification and description of various parties to the engagement
    - A description of the engaging party’s responsibilities, including responsibilities for identifying the intended users and considering their needs as well as determining that the procedures are appropriate for the purpose of the engagement;
    - Identification of the responsible party and a description of the responsible party’s responsibilities; and
    - Identification of any parties other than the engaging party that have also acknowledged the appropriateness of the AUP
  - Limitations of an AUP engagement
    - A statement that the AUP performed may not address all items of interest to an intended user and may not meet the needs of all intended users and accordingly, intended users are responsible for the appropriateness of the AUP for their purposes.
  - Procedures that have been modified or not performed
    - If applicable, identification of procedures that have been modified or not performed and an explanation as to why they have been modified or not performed. For example, if the procedures are set forth in law or regulation and a procedure is not applicable in the circumstances of the particular engagement.
  - Exceptions
    - If exceptions are found, an explanation that professional judgement may not be applied in determining which exceptions to report and that the concept of an anomaly may not be relevant.

80. The two illustrative AUP reports in ED-4400 were generally well received. Several respondents requested further examples to address circumstances such as an AUP report that is addressed to more than one engaging party or to a party other than the engaging party. In addition, a few respondents expressed some concerns on some of the procedures and findings in the illustrative AUP reports, for example:
• One of the procedures include the word “determine.” The word “determine” is normally associated with the exercise of professional judgment.

• The findings in the second illustrative AUP report include matters that go beyond findings normally contemplated in an AUP engagement, such as:
  o Management’s representation for the reason the contract was not subject to competitive bidding; and
  o The practitioner’s explanation for the difference between the contract and the amount ultimately paid.

81. Several respondents disagreed (or did not explicitly express agreement) with the proposed structure and content of the AUP report primarily because:
  • The proposals did not address some of the matters discussed in the AUP report section; or
  • The respondent has previously disagreed with the proposals on other aspects of the ED such as the independence disclosures.

Task Force’s Preliminary Views

82. Based on strong support from respondents, the Task Force agreed that the approach of not requiring a restriction of distribution or use to be placed on the AUP report remains appropriate. The Task Force will consider developing application material similar to the second bullet point in paragraph 76 above to explain why neither a restriction on use nor a restriction on distribution can be mandated in the standard. The Task Force will also consider whether further requirements or application material are needed to enhance the structure and content of the AUP report.

Matter for IAASB Consideration

7. The IAASB is asked for its views on the AUP report.

X. Other Significant Issues

Written Representations

83. Paragraph 27 of ED-4400 requires the practitioner to consider whether it is necessary to request written representations from the engaging party. This requirement was drafted using the phrase “consider whether it is necessary” (as opposed to requiring the practitioner to request written representations) to reflect the view that written representations are not normally required in an AUP engagement.

84. ED-4400 did not pose a question on written representations. Nonetheless, this requirement garnered some discussion among the respondents. Key views expressed include:

  • Some respondents indicated that a requirement to consider whether it is necessary to obtain representations seem overly onerous as evidence from written representations is not necessary in an AUP engagement (for the reasons stated in ED-4400). Further, such a requirement will likely result in perfuntory documentation in most cases (that is, documenting that the practitioner has considered the necessity of requesting written representations and

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13 NVivo reports are not available for this section as there are no specific questions posed in ED-4400.
concluded that representations are not necessary). These respondents suggest that the requirement be removed.

- A few respondents expressed the view that written representations should be required for all AUP engagements. Matters such as access to all records relevant to the AUP engagement and the engaging party’s disclosures of identified or suspected fraud or non-compliance with laws and regulations are fundamental to the practitioner being able to complete the engagement.

- A few respondents suggested developing guidance on circumstances when written representations may be appropriate, for example:
  - If the AUP engagement involves inquiries, representations may be obtained as to the accuracy and completeness of responses that are documented in the AUP report;
  - If the procedures are modified during the engagement, representations may be obtained from the engaging party that the modified procedures are appropriate for the purpose of the engagement; and
  - If the engaging party is not the responsible party, representations may be obtained from the responsible party.

Task Force’s Preliminary Views

85. The Task Force plans to retain the requirement for the practitioner to consider requesting written representations, but clarify in the application material that written representations are not generally required. The Task Force will also consider developing application material to provide guidance on when written representations may be appropriate.

86. ED-4400 included references to the responsible party. However, this term is not defined. Several respondents suggested including a definition of the responsible party. In addition, the respondents encouraged the IAASB to further consider the implications when the engaging party is not the responsible party, particularly in the following areas:

- Engagement acceptance considerations (for example, whether the practitioner is able to access information necessary to perform the AUP engagement);
- Independence (for example, clarifying that the independence disclosure requirements apply to the practitioner’s relationship with the responsible party);
- Written representations (as discussed in the preceding sub-section); and
- Reporting (for example, whether an additional statement in the AUP report is necessary when the engaging party is not the responsible party).

Task Force’s Preliminary Views

87. In light of the respondents’ comments, the Task Force plans to develop a definition of the responsible party similar to the one in ISAE 3000 (Revised), and corresponding requirements and application material pertaining to the practitioner’s responsibilities as they relate to the responsible party.
Fraud and Non-Compliance with Laws or Regulations

88. ED-4400 addressed fraud and non-compliance with laws and regulations in paragraph 6, which was derived from paragraph 9 of ISA 250. Several respondents suggested that this area be expanded, including adding requirements or application material on specific actions that the practitioner may take if the practitioner becomes aware of actual or suspected fraud or non-compliance with laws and regulations. For example:

- Communicating the matter with the engaging party;
- Determining whether to withdraw from the engagement; and
- Determining whether the practitioner is required to report the identified or suspected fraud or non-compliance with laws and regulations to an authority outside the entity.

Task Force’s Preliminary Views

89. The Task Force will consider developing further guidance, including clearer linkages to the practitioner’s responsibilities as set out in relevant ethical requirements, if the practitioner becomes aware of fraud and non-compliance with laws and regulations.

Documentation

90. ED-4400 set out a requirement and application material on documentation. These paragraphs are derived from ISAE 3000 (Revised). A few respondents provided suggestions on additional documentation requirements such as:

- Identified issues regarding compliance with relevant ethical requirements and how they are resolved;
- Conclusions reached regarding engagement acceptance and continuance considerations; and
- Other areas involving significant professional judgment and the practitioner’s conclusions on these areas.

Task Force’s Preliminary Views

91. The Task Force will consider developing further documentation requirements or application material while being careful to avoid inconsistencies with documentation requirements in other IAASB pronouncements such as ISAE 3000 (Revised).

Education and Global Consistency

92. Several respondents emphasized the importance of educating the public on the value and limitations of an AUP engagement, and how it differs from an assurance engagement. Suggestions on achieving this objective include:

- Developing application material on the differences between an AUP engagement and an assurance engagement;
- Enhancing the description of an AUP engagement in the AUP report; and
- Developing an education initiative to accompany the issuance of ISRS 4400 (Revised).

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14 ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements
93. Some respondents pointed out that a number of jurisdictions, NSS and professional accounting bodies such as the Australian Auditing and Assurance Standards Board (AuASB), the American Institute of Certified Public Accountants (AICPA) and the Nederlandse Beroepsorganisatie van Accountants (NBA) have recently promulgated national standards on AUP engagements. The different national standards may have resulted in divergence in global practices in the performance of AUP engagements. The respondents encouraged the IAASB to consider the implications of such national standards when finalizing ISRS 4400 (Revised).

94. One of these respondents pointed out that the flexibility in ED-4400 helps to minimize conflicts with the many national standards. Aspects of ED-4400 that support a flexible approach include, for example, not requiring independence as a precondition or not placing restrictions on the AUP report.

**Task Force’s Preliminary Views**

95. The Task Force will consider developing introductory paragraphs to better explain the differences between an AUP engagement and an assurance engagement. In addition to the changes to ISRS 4400 (Revised), the Task Force will address these issues in the Basis for Conclusions and other common communications accompanying the issuance of a standard.

96. On global consistency, whenever possible, the Task Force will continue to strive for flexibility when finalizing ISRS 4400 (Revised) so that the revised ISRS can be appropriately applied in accordance with different national standards.

**Matter for IAASB Consideration**

8. The IAASB is asked for its views on:
   (a) Written representations;
   (b) Responsible party;
   (c) Fraud and non-compliance with laws and regulations;
   (d) Documentation; and
   (e) Education and global consistency.

**XI. Effective Date and Translation**

*Summary of Respondents’ Comments Relating to Effective Date and Translation (see NVivo Reports 10A and 11A and Excel Summaries 10B and 11B)*

**Background**

97. ED-4400 proposed that ISRS 4400 (Revised) be effective for AUP engagements for which the terms of engagement are agreed to on or after [DATE], with the [DATE] being 18-24 months after the approval of the revised ISRS. The ED also posed a question as to whether there are any translation issues.
MG Response

98. The respondent agreed with the proposed effective date and encouraged the IAASB not to delay the effective application beyond 18 months after final approval of the standard. The respondent indicated that the benefits of promptly using an improved standard outweigh the potential implementation risks.

99. The respondent did not identify any translation issues and noted that many of the new terminology in the ED (such as practitioner, quality control, experts, independence and professional judgment) are also included in other IAASB standards. Accordingly, many of the new terms in ED-4400 have already been widely translated.

Other Stakeholders’ Responses

100. A majority of respondents did not raise any concern with the proposed effective date or with translation issues.

101. Some respondents expressed a concern that basing the effective date on when the terms of the engagement are agreed to would not be practical for recurring engagements or when there has been an amendment in the terms of engagement. The respondents suggested that the effective date be based on the AUP report date, which would make the effective date consistent with those in other IAASB pronouncements such as ISAE 3000. For example, ISAE 3000 paragraph 9 states:

“This ISAE is effective for assurance engagements where the assurance report is dated on or after December 15, 2015.”

102. Several respondents who raised potential translation issues are mostly concerned that the word “findings” may not be properly translated. Other words that may present potential translation issues include the word “therefor” or the listing of words or terms in paragraphs A22-A23 of ED-4400.

Task Force’s Preliminary Views

103. In relation to the effective date, the Task Force recognizes that the engagement agreement date may be not be fixed as suggested by some respondents. However, the actual date of the AUP report may also differ from the expected date of completion of the AUP engagement. As both the engagement agreement date and the reporting date may be moving targets, the Task Force members had mixed views on this issue. The factors considered by the Task Force relating to basing the effective date on the AUP report versus on the engagement agreement date are set out below:
Basing the effective date on the AUP report date

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basing the effective date on the report date is consistent with other IAASB pronouncements.</td>
<td>The actual date of the AUP report may differ from the expected date of completion of the AUP engagement. Consequently, basing the effective date on the AUP report date could result in circumstances when the AUP engagement is performed under extant ISRS 4400 (with the expectation that the engagement would be completed before the effective date of ISRS 4400 (Revised)) but is ultimately completed (and the AUP report issued) after the effective date.</td>
</tr>
</tbody>
</table>

In circumstances when the practitioner is engaged to perform AUP engagements for multiple years, the terms of engagement may have specified that the AUP engagements are to be performed under extant ISRS 4400 for the years specified in the terms of engagement ("engagement period"). If ISRS 4400 (Revised) were to become effective for AUP reports dated during the engagement period, practitioners will not be able to comply with the terms of engagement.

AUP engagements are often performed in the public sector where the practitioner is engaged to perform AUP engagements for multiple years. This circumstance is less common with respect to engagements under other IAASB pronouncements. Accordingly, the issue described directly above may be more significant to AUP engagements as compared to engagements addressed in other IAASB pronouncements.

Basing the effective date on the engagement agreement date

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For recurring engagements or when there has been an amendment in the terms of engagement, it may not be clear what the engagement agreement date is. Consequently, basing the effective date on the engagement</td>
</tr>
</tbody>
</table>
agreement date could result in confusion as to whether a particular AUP engagement is required to be performed under ISRS 4400 (Revised).

In circumstances when the practitioner is engaged to perform AUP engagements for multiple years, basing the effective date on the engagement agreement date could result in a long delay between the issuance of ISRS 4400 (Revised) and when ISRS 4400 (Revised) is ultimately effective. Given the strong overall support for ISRS 4400 (Revised), it is in the public interest not to unnecessarily delay the application of ISRS 4400 (Revised).

104. The Task Force has not concluded on this issue and is seeking the IAASB’s views and direction on this issue.

105. On the potential Translation issues:

- Translation of “findings” vs “factual findings” – The Task Force recognizes that some national AUP standards (in languages other than English) make no distinction between the term “findings” and “factual findings” (or “results” and “factual results”) such as those in China and France. The Task Force also recognizes that other national standards do make a distinction between the “factual findings” and “findings” such as those in Canada, Germany and Japan. The Task Force notes that paragraph A11 of ED-4400 would address potential jurisdictional differences and translation issues.

- Translation of the word “therefor” – The Task Force will consider replacing this word with a simpler non-legalistic word.

- The listing of words or terms in paragraphs A22-A23 – A respondent indicated that the words or terms may be difficult to translate but did not identify any specific issue with any of the words. The Task Force has noted that many of these words are used in other IAASB pronouncements.

**Matter for IAASB Consideration**

9. The IAASB is asked for its views on:

   (a) Effective date; and
   (b) Translation issues.

**XIV. Next Steps**

106. The Task Force will consider all the respondents’ comments on ED-4400 and the IAASB’s directions at this meeting in developing the post-exposure draft of ISRS 4400 (Revised). The Task Force plans to have the first read of the post-exposure draft of ISRS 4400 (Revised) ready for presentation to the Board by September 2019. The first read of the post-exposure draft will be presented to the Board in
September if time permits, or at a subsequent meeting when there is time available on the Board’s agenda. The Task Force is working towards approval of final ISRS 4400 (Revised) in late 2019 or early 2020.

Matters for IAASB Consideration

10. The IAASB is asked whether it supports the Task Force’s planned next steps.
11. Are there other significant matters raised by respondents that the Task Force has not covered in this paper?
### Appendix 1

**List of Respondents to the ISRS 4400 (Revised) Exposure Draft**

NOTE: MEMBERS OF THE MONITORING GROUP ARE SHOWN IN **BOLD** BELOW.

<table>
<thead>
<tr>
<th>#</th>
<th>Abbrev.</th>
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# Appendix 2

## Listing of NVivo Reports and Excel Summary Spreadsheets

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Appendix 3

AUP Task Force Members and Activities

AUP Task Force Members

1. The AUP Task Force consists of the following members:
   • Eric Turner – Chair
   • Roger Simnett
   • Isabelle Tracq-Sengeissen
   • Vivienne Bauer

Task Force Activities since the last IAASB Discussion

2. Since the approval of the ED (September 2018), the AUP Task Force met once in person (March 2019) and held two teleconferences (April 2019 and May 2019).

Outreach

3. As agreed at the IAASB September 2018 meeting, the Task Force sent invitations to various stakeholders to comment on ED-4400.

4. At the IAASB Consultative Advisory Group (CAG) March 2019 meeting, staff provided a feedback report on key issues raised by CAG members.