Responses to ED–4400\(^1\)
Comments to Q2 ‘Professional Judgment’
NVivo Report 2A
(FOR REFERENCE)

01. Independent Regulatory Board for Auditors

- Yes, we support the view that professional judgment is required or has a role to play in an AUP engagement; and paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect this.

- However, we believe that the wording of paragraph A16 of the application material lacks clarity and does not address the possibility of a misinterpretation regarding whether or not the practitioner would apply professional judgment in the execution of the procedures.

- We suggest that it be clarified in paragraph A16 that the practitioner would not apply professional judgment in the execution of the procedures to be performed. A procedure that requires the practitioner to exercise his/her professional judgment in performing it is unlikely to meet the engagement acceptance and continuance preconditions.

02. National Association of State Boards of Accountancy

Yes, we support the approach of modeling the definition of professional judgment from ISAE 3000. We also found the examples provided in the application material helpful.

03. World Bank Group

We welcome the new references to professional judgment in the AUP standard. The definition in the ED is fully consistent with the definition provided in the IAASB Handbook (Glossary of Terms). However, the new requirements on professional judgment (Para. 18) would limit its application to accepting and conducting the AUP engagement. In our view, it should also extend to the formulation and presentation of the findings. Indeed, performing an AUP on certain types of subject matters may require the practitioner to apply professional judgment. A case in point is “compliance with contract and regulations” (see last example in Para. A2), as compliance may entail meeting the letter and spirit of said contract or regulations, depending on the context.

We note in this respect that the description of the circumstances in which the application of professional judgment in AUP engagement in Para. A15 is much broader than in Para. 18.

04. Australian Auditing and Assurance Standards Board

The AUASB considers that professional judgement requires further clarity in the standard. The execution of procedures in an AUP engagement should not involve professional judgment.

One of the most significant attributes of an AUP engagement is the lack of subjectivity in both the procedures and the resultant factual findings. The distinguishing factor between assurance engagements and an AUP engagement is that the practitioner performs the procedures as agreed with management and reports factually on the findings. The Australian ASRS 4400\(^*\) explicitly states that the assurance practitioner will not be required, during the course of the engagement, to exercise professional judgement in determining or modifying the procedures to be performed. The AUASB considers that this specific clarification is required in the proposed standard.

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\(^1\) Exposure Draft International Standard on Related Services 4400, Agreed-Upon Procedures Engagements
ED ISRS 4400 is less direct in relation to the exercise of professional judgement, requiring a read of several paragraphs (13(b), 13(j), 18, 20(b), 26, A14-A16) to eventuate in demonstrating the role of professional judgement in an AUP engagement. While the explanatory paragraphs of ED ISRS 4400 make it clear that there should not be judgement in the conduct of the procedures themselves, the wording of paragraph 18 “and conducting an agreed-upon procedures engagement” implies that judgement can be used and in fact may have the unintended consequence of implying that professional judgement is required in performing procedures. Introducing the concept of ‘professional judgement’ would envisage that procedures are performed in a manner that was not initially agreed (in the engagement letter) and hence it may become difficult to report factually. This may result in different practitioners performing the same procedures, getting different results as the level of professional judgement differs.

The AUASB considers that that additional wording is required that directly explains that a procedure that requires the exercise of professional judgement in performing or in analysing the results thereof is unlikely to meet the engagement acceptance and continuance pre-conditions. An example that could be used is for NOCLAR or fraud, where the practitioner exercises judgment if they become aware of certain matters but they are not required to perform procedures to identify such circumstances, or even to remain alert for them, as would be applicable in an audit or assurance engagement, as this is not a risk-based standard. Furthermore, the AUASB suggests modifying the term “discussing” with “agreeing upon” in the first bullet in paragraph A15 as professional judgement is not applied in discussing the nature, timing and extent of procedures, but rather applies in agreeing upon the procedures.

The AUASB would like to see a clearer requirement in relation to the exercise of professional judgement and suggests that paragraph 18 of ED ISRS 4400 is replaced with more explicit wording:

*The nature, timing and extent of procedures shall be specified in the terms of the engagement in sufficient detail such that the assurance practitioner will not be required, during the course of the engagement, to exercise professional judgement in determining or modifying the procedures to be performed.*

Additionally, the concept of a “responsible” party is included in paragraph A15 (and paragraphs A9 and A38); however, there is no definition of a responsible party or requirements pertaining to responsible parties within ED-4400. The AUASB suggests that the term ‘responsible party’ is defined and a statement of their responsibilities be included.

**05. Canadian Auditing and Assurance Standards Board**

We agree with how professional judgment is addressed in ED-4400. Canadian stakeholders indicated that the requirements and application material appropriately reflect the role professional judgment plays in an AUP engagement.

**06. Compagnie Nationals des Commissaires aux Comptes- Consell Superieur de l'Ordre des Experts-Comptables**

Yes we agree that requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role professional judgment plays in an AUP engagement.

We believe the intent of paragraph A16 is to recognize that there may be limited judgement necessary in some circumstances. However, we believe a final sentence could be added that would more directly explain that a procedure that requires the exercise of more than a limited amount of professional judgement in performing it or in analyzing the results thereof is unlikely to meet the engagement acceptance and continuance pre-conditions. An example to illustrate may also be useful.
07. Hong Kong Institute of Certified Public Accountants

While we agree that professional judgement is important in an AUP engagement for client acceptance and in the scenarios suggested by paragraph A15 of ED-4400, we would highlight that paragraphs 18 and A14 of ED-4400 may lead to unintended misinterpretation of the role of professional judgment plays in an AUP engagement.

Typically, executing and reporting an AUP engagement does not involve professional judgement; different practitioners undertaking the same AUP engagement are expected to arrive at the same findings. However, the use of the phases "taking into account the circumstances of the engagement" in paragraph 18 and "in making informed decisions about courses of actions throughout the AUP engagement" in paragraph A14 may suggest that professional judgement is required in performing an AUP. This contradicts with the fact that an AUP engagement should result in objectively verifiable factual findings and not subjective opinions or conclusions.

We would recommend the IAASB to clarify in what context the “informed decisions” are expected to be made throughout the engagement after the procedures have been agreed. In addition, it would be helpful to re-locate A16 to after A14 for better flow.

08. Institut der Wirtschaftsprüfer

We agree with the proposed use, in paragraph 13 (j) of the draft, of the definition of professional judgment applied in other IAASB engagement standards (the ISAs, ISREs, and ISRS 4410) with reference to agreed-upon procedures engagements, because the meaning of the exercise of professional judgment is the same, regardless of the nature of the engagement.

We also agree with the proposed requirement in paragraph 18 and the proposed application material in paragraphs A14-A16 that professional judgment is used throughout an agreed-upon procedures engagement – but with one important exception. We do not agree that the exercise of professional judgment can take place in the actual performance of the agreed-upon procedures because it would fundamentally change the nature of the engagement so that it no longer leads to factual results, and it devalues the meaning of professional judgment – both of which we explain below.

The nature of professional judgment

The definition of professional judgment sets forth that professional judgment is exercised “in making informed decisions about the courses of action that are appropriate in the circumstances”. Therefore, by definition, the exercise of professional judgment is not relevant in circumstances where there are no reasonable alternative courses of action in the circumstances requiring the exercise of such judgment in order to choose an appropriate course of action from among those that are reasonable. In short, if there are no reasonable alternative courses of action from which to choose, no professional judgment is required or even possible. In this context, it is important to distinguish professional judgment from ordinary human judgments and from technical judgments.

Ordinary human judgments must be exercised all the time to function as a human being – like being able to recognize matters using the senses, etc., such as recognizing human faces on sight – and require no relevant professional training, knowledge and experience. Of course, in undertaking certain activities over time, the ability to exercise human judgments can improve (“practice makes perfect”). Technical judgments not involving professional judgments relate to applying technical knowledge to arrive at a conclusion that a layperson without such knowledge cannot do – that is, situations in which there are no reasonable technical
alternatives resulting from the application such technical knowledge, such as that used by a trained bookkeeper in distinguishing a sales invoice from a purchasing invoice, or even recognizing that, technically speaking, there are no reasonable alternative technical courses of action in the circumstances. Technical judgments can be subjected to algorithmic resolution using technical knowledge.

Professional judgment surpasses mere technical judgment in that professional judgment requires, among other matters, a high level of expertise that needs to be obtained through more than a few years of advanced education of a high intellectual standard to obtain relevant general and technical knowledge and skills, more than a few years of professional experience in applying such knowledge and skills in practice, and a professional ethos based upon technical, professional and ethical standards, values and practices. These conditions are reflected in the requirements that most jurisdictions set forth to become a member of the accounting profession and as set forth the IAESB’s International Education Standards. Professional judgment needs to be applied when practitioners make decisions about alternative courses of action when those decisions involve weighing multiple factors in a non-linear decision-making process that cannot be subjected to algorithmic resolution.

Claiming that simply exercising ordinary human judgments and technical judgments constitutes the exercise of professional judgment degrades the meaning of professional judgment, diminishes the qualities being sought of practitioners in making choices about alternative courses of action in planning and performing engagements, and eliminates the value of the concept of professional judgment in standards. In fact, if every judgment made by a practitioner is a professional judgment, then there is no need for the concept of “professional judgment” and both the concept and its definition can be deleted from the IAASB’s literature.

We particularly disagree with the assertion in paragraph 8 of the Explanatory Memorandum that “professional judgment is never suspended in an AUP engagement”. This statement erroneously presumes that “professional judgment” is a state of mind or an attitude (like professional scepticism), rather than a mental action that needs to be exercised when practitioners obtain information that leads them to recognize the need to choose among alternative courses of action (see the description of professional judgment in ISA 200.A25–.29). That said, professional judgment is exercised throughout the professional activities that professional accountants undertake – but not in every aspect of those activities.

ISA 230.8 (c), among other ISAs, recognizes that not all judgments are professional judgments: only significant professional judgments in relation to significant matters need to be documented – not all (significant) judgments in relation to significant matters. Eliminating the difference between significant professional judgments and other significant judgments could lead to the need to vastly increase what practitioners need to document under the IAASB engagement standards.

**The meaning of “factual results” and the impact on the need for professional judgment**

As proposed in the draft, an agreed-upon procedures engagement involves the practitioner performing the agreed-upon procedures and reporting the findings resulting from performing those procedures (paragraphs 26 and 30 (j)). In agreeing those procedures, the draft (paragraph 22 (f)) requires the practitioner and the engaging party agree the nature, timing and extent of those procedures.

Findings are defined in the draft as factual results of procedures performed, where such findings are capable of being objectively verified and described (paragraph 13 (f)). We refer to our response to Question 5 above on the issues with that definition. In that response, we note that the application material to that definition stating “which means that different practitioners performing the same procedures are expected to
arrive at the same results” is crucial to an understanding of what “factual results” mean. This implies that the nature, timing and extent of the procedures that must be agreed-upon under paragraph 22 (f), must be specific enough so that different practitioners performing the same procedures are expected to arrive at the same results. This can only be the case if there are no reasonable alternative courses of action available to the practitioner in performing the nature, timing or extent of procedures that could lead to different results. Hence, if reasonable alternative courses of action in performing the procedures are available to the practitioner that could lead to different results, the nature, timing and extent of the procedures agreed-upon are not specific enough to lead to “factual results”.

The need to choose among reasonable alternative courses of action is the prerequisite for the exercise of professional judgment as defined (see previous section above). Consequently, the nature, timing and extent of procedures agreed-upon need to be specific enough so that professional judgment is not needed to choose among reasonable alternative courses of action.

This argument leads to the conclusion that the performance of the agreed-upon procedures cannot lead to alternative results: that is, there are no alternative factual results possible (i.e., otherwise, the procedures would not have been “agreed-upon” and the results not “facts”).

If, however, the nature, timing and extent of the procedures agreed are not specific enough, variations in the nature, timing and extent of the procedures performed by the practitioner can lead to different results: the results would therefore no longer be “facts” resulting from performing agreed-upon procedures. Consequently, any need to apply professional judgment, as defined, in performing the agreed-upon procedures implies that the agreed nature, timing and extent of those procedures are not specific enough to yield factual results.

For these reasons, we believe that the requirement in paragraph 18 needs to be adapted to recognize that the nature, timing and extent of the agreed-upon procedures must be specific enough so that professional judgment (as opposed to human or technical judgment) need not be exercised in performing the procedures. In this context, the application material should to clarify that the following are factual results:

1. determining that a procedure with an agreed-upon nature, timing and extent cannot be performed as agreed and needs to be replaced by another procedure
2. that the nature, timing or extent of an agreed-upon procedure needs to be changed or specified further to enable the determination of factual results, rather than findings that are not factual.

In contrast, agreeing a replacement procedure or agreeing to change, or further specifying, the nature, timing or extent of a procedure are matters that clearly require professional judgment. Likewise, considering whether, having performed or in performing a procedure, due to new information obtained, a procedure with an agreed-upon nature, timing and extent that can be performed as agreed remains appropriate based upon the purpose of the engagement, and may need to be changed or replaced, is a matter requiring professional judgment. The same applies to the other sub-bullets of the last bullet point of paragraph A15 of the draft.

The last sentence of paragraph A16 introduces a “sliding scale” of professional judgment that permits the exercise of professional judgment, as long as the findings resulting from the performance of the agreed-upon procedures can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretation. This means that the same practitioner applying the same nature of a procedure with an undefined time or extent could obtain completely different findings for the same matter depending upon how he or she chooses the time to perform the procedure or chooses to design the extent of the procedure,
because the findings can still be described objectively, in terms that are clear, are not misleading, and are
not subject to varying interpretation. As we note above, given the prerequisite that different practitioners
performing the same agreed-upon procedures are expected to arrive at the same results, different factual
results for the same agreed-upon procedure means that in fact the findings do NOT constitute factual results
from agreed-upon procedures. We believe that the way paragraphs 18 and the last sentence of paragraph
A16 are written, it will lead to practitioners not sufficiently specifying the nature, timing and extent of
procedures, which would automatically mean that considerable professional judgment would be required
to perform those procedures.

For the reasons we have explained above, we believe that the beginning of paragraph 18 needs to be
written as follows:

"With the exception of the requirement in paragraph 26, the practitioner shall apply ....".

The phrase at the end of the sentence of paragraph 18 with the dangling construction "....taking into account
the circumstances of the engagement" can be deleted: it was not used in the relevant paragraph in each of
ISA 200, ISAE 3000, ISRS 4410 or ISRE 2400 and is therefore superfluous at best and confusing at worst.
In addition, the guidance in the last sentence of paragraph A16 would need to be adapted for the change
we propose to paragraph 18.

09. The Japanese Institute of Certified Public Accountants

Yes, we agree those paragraphs of ED-4400 appropriately reflect of the role of professional judgement.
However, the paragraphs 13(j), 18 and A14-A16 of ED-4400 mention nothing about specific actions to be
taken if a practitioner finds reason to doubt the integrity of information.

- For example, paragraph A15 indicates that a practitioner should determine appropriate actions after
becoming aware of matters that suggest procedures are inappropriate, that may indicate fraud, or
that may cast doubt on the integrity of information or indicate that the information may be misleading.
However, nothing appears to be stipulated regarding specific actions to be taken if a practitioner finds
reason to doubt the integrity of information, or has other similar concerns, while performing the
procedures.

- Likewise, when undertaking an AUP engagement together with another engagement (paragraphs 33
and A45), the practitioner may become aware of matters that cast doubt on the integrity of information
as a result of picking up on new information that was not obtained in the course of performing the
AUP engagement. For example, a practitioner might notice inconsistencies between information
obtained through an AUP engagement and that obtained through another engagement such as
auditing of financial statements. However, also in this case, nothing appears to be stipulated
regarding specific actions to be taken if a practitioner finds reason to doubt the integrity of information,
or has other similar concerns, while performing the procedures.

We therefore think it is necessary to show guidance in the section of “Performing the Agreed-Upon
Procedures Engagement” and “Undertaking an Agreed-Upon Procedures Engagement at the Same Time
as another Engagement” as to specific actions to be taken (in particular, discussion with the engaging party,
addition of further procedures, or disclosure in the AUP report, etc.) when the practitioner encounters the
cases applicable to paragraph A15.
10. Auditing and Assurance Standards Board of Malaysian Institute of Accountants

Professional judgement has always been applied by the practitioner in conducting an AUP engagement. We are in agreement with the definition, requirement and application material on professional judgment in the ED as they appropriately reflect the role professional judgment plays in an AUP engagement.

Paragraph A10 in dealing with ‘Findings’ states that “Factual results are capable of being objectively verified, which means that different practitioners performing the same procedures are expected to arrive at the same results.” We view this paragraph as important in understanding the exercise of professional judgment in an AUP engagement.

However, we would like to highlight that paragraph A16 may give the impression that practitioners may apply more professional judgment than is warranted for AUP engagements. We therefore suggest that either:

(i) The last sentence in the paragraph which reads, “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.” be removed; or

(ii) Further clarification or examples on circumstances where further professional judgement may be required are provided.

11. Nederlandse Beroepsorganisatie van Accountants

We believe that the role of professional judgment should be broader than mentioned in the ED. We understand that the role of professional judgment in an AUP is different than in an audit, but in our opinion professional judgment at an AUP engagement goes beyond professional competence and due care. It is possible that the practitioner gives an interpretation of the findings, for instance in a summary report. In this (summary) report the preconditions and assumptions should be described clearly to explain the interpretation. With this (summary) report including interpretation he can help the intended user in his decision-making process. To that end, we recommend to delete the last sentence of paragraph A16 “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.” On the contrary, professional judgment is eminently the added value of the practitioner, also in an AUP.

For example, the practitioner can report that the internal guidelines are followed for twelve investigated expense reports, but he does not make a statement about all of the expense reports (see example below). The intended users will have to determine for themselves whether they find this sufficient and apply their own knowledge and make use of any other information. Therefore, it is important that the practitioner and the intended users will agree the AUP.

Exercising professional judgment also means considering whether or not to withdraw from the engagement or amend it in the event of identified or suspected fraud or non-compliance.

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<th>Para.</th>
<th>Dutch Standard 4400N, Engagements to Perform Agreed-upon Procedures</th>
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<tr>
<td>A6</td>
<td>Agreed-upon procedures with respect to grant recipient travel and accommodation expenses</td>
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The practitioner selects 12 random items from the grant recipient's travel and accommodation expenses. He examines that:

- The travel and accommodations expenses are consistent with the common internal travel policy. The grant recipient has provided a basis for the common travel expenses policy, so that the practitioner can compare the selected items of the travel expenses with the policy (for example the use of first-class tickets, reimbursement based on actual costs or a fixed amount);

- The items have a direct connection to the funded project, as supported by relevant documents (such as minutes of meetings, information from workshops and conferences, consistency as to dates/duration of the workshop/conference);

- These expenses are eligible for grant and are not excessive or irresponsible expenses.

Our examination shows that for the 12 items examined:

- Expenses have been incurred, approved and reimbursed in accordance with the common travel policy.

- There is a direct connection between the expenses and the project, and that the evidence is consistent with the subject of the travel, the dates and duration.

- These expenses are eligible for grant and are not excessive or irresponsible expenses.

The practitioner uses his professional judgment when making a variety of assessments during the engagement. For this purpose, the practitioner uses his knowledge, experience and relevant training in the context of the Standard and ethical principles. This includes:

a. The assessment whether the engagement is appropriate under the given circumstances;

b. Helping the intended user to determine the procedures and premises, and whether these are sufficient to meet the expectations and information needs of the intended user.

c. Determining whether findings should be reported;

d. Considering whether he should withdraw from the engagement or modify the terms of the engagement in the event of suspected fraud or non-compliance with laws and regulations.

12. National Board of Accountants Tanzania

Yes: We do agree with the definition, requirements and application material on professional judgement.

Our Suggestion:

We recommend issues related to professional skepticism should also be included in the definition of professional judgment.
13. BDO International Limited

Regarding the definition of professional judgment in paragraph 13(j), it is not clear which professional standards are to be used. Consider revising the definition to say: “… within the context of ISRS 4400, …” or “… within the context provided by professional standards governing the engagement, …”.

The requirement in paragraph 18 also does not clarify which professional standards are relevant. If the definition of professional judgment in paragraph 13(j) is not revised, perhaps paragraph 18 should specify that professional judgment is applied in the context of the requirements and guidance in ISRS 4400.

We agree with the guidance and examples provided in the application guidance paragraphs regarding the application of professional judgment in an agreed upon procedures engagement. In particular, the examples are very useful in describing when professional judgment may be needed in an AUP engagement.

15. Crowe Horwath International

We agree that professional judgment should be addressed in this standard, but in a different context from other assurance engagements.

The way that this is addressed in the standard and the application guidance is clear and appropriate. The separate references to “accepting” and “conducting” the engagement are important.

16. Deloitte

DTTL agrees with the definition and requirement on professional judgment in the referenced paragraphs above; however, we have suggested amendments to the application material. First, the concept of a “responsible” party is included in paragraph A15 (and paragraphs A9 and A38); however, there is no definition of a responsible party or requirements pertaining to responsible parties within ED-4400. See the response to Question 9 in Appendix I and comments in Appendix II for specific recommendations regarding the application material and definition for responsible party.

Secondly, paragraph A15 indicates that professional judgment may be applied in determining the appropriate actions if the practitioner becomes aware of matters that may indicate fraud or an instance of non-compliance or suspected non-compliance with laws or regulations. While DTTL agrees that the practitioner would need to apply professional judgment in these situations, we noted that ED-4400 does not include any requirements relating to fraud and non-compliance with laws or regulations (as noted in our overall comments above).

DTTL also recommends modifying the term “discussing” with “agreeing” in the first bullet in paragraph A15 as professional judgement is not applied in discussing the nature, timing, and extent of procedures, but rather applies in agreeing upon the procedures. Further, we do not think that the practitioner’s expert is involved in agreeing upon the procedures; accordingly, recommend the following modifications:

A15. Professional judgment may be applied in an agreed-upon procedures engagement as follows:

- **Discussing Agreeing upon** the nature, timing, and extent of the procedures to be performed (taking into account the purpose of the engagement) with the engaging party, and in some cases, the intended users or the responsible party (if these parties are not the engaging party) or the practitioner’s expert.

Furthermore, in an AUP engagement, the practitioner performs the procedures that have been agreed upon with the engaging party and communicates the procedures and findings. The proposed standard defines findings as being capable of being objectively verified and objectively described. DTTL does not agree with
the application guidance in paragraph A16, which suggests that it is appropriate to apply professional judgment in the performance of a procedure. We do not believe professional judgment should play a role in performing agreed-upon procedures, as this may result in different practitioners performing the same procedures but getting different results as the level of professional judgment differs. Accordingly, we recommend replacing the application material in paragraph A16 that suggests professional judgment plays a role in performing agreed-upon procedures with application material that makes it clear that professional judgment is not necessary, as shown below:

A16. Unlike in an assurance engagement, the procedures performed in an agreed-upon procedures engagement are not designed by the practitioner to obtain reasonable or limited assurance evidence that provides a basis for an opinion or conclusion. Rather, an agreed-upon procedures engagement involves the performance of the specific procedures that have been agreed upon with the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. The application of professional judgment in the performance of the specific procedure is not necessary as the procedures are required to be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations. 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.

17. Ernst & Young Global Limited

No, we do not believe that the definition of professional judgment or the discrete requirement to apply professional judgment appropriately reflects the role professional judgment plays in an AUP engagement.

In an AUP engagement, the procedures are required to be objective in nature such that the different practitioners performing the same procedures are expected to arrive at the same findings. This means professional judgment should not be a factor in the execution of the procedures. We believe that including a definition, as well as a requirement to apply professional judgment in “conducting the engagement”, has the unintended consequence of conveying the exact opposite (i.e., that professional judgment is required in performing the procedures). We therefore believe that both the definition of professional judgment and the requirement in paragraph 18 should be removed from ED-ISRS 4400.

We however agree that professional judgment is applied in various aspects of an AUP engagement. In particular, professional judgment can be critical to engagement acceptance decisions (i.e., to make the judgments required by paragraphs 20(b) and 21 of ED-ISRS 4400). We also agree with the other examples in paragraph A15 of when professional judgment may play a role. Instead, our disagreement is with the approach taken to require the application of professional judgment holistically for the entire engagement. The meaning of the qualifier of “taking into account the circumstances of the engagement” is not clear and likely subject to misinterpretation. We believe a better approach, which would be less prone to the unintended consequences we have described, is to specifically emphasize the role of professional judgment in the application material where its application is of most relevance and importance. For example, we believe that the application material in paragraph A16 is most relevant, and would be better placed, to support the requirement in paragraph 20(b) related to engagement acceptance.

We would not oppose an overarching statement in the introduction or application material of ED-ISRS 4400 that explains that professional judgment is applied in determining whether to accept AUP engagements and
in determining certain courses of action during the engagement. However, such a statement should be contrasted with the fact that an AUP engagement involves performing procedures that are required to be objective in nature such that different practitioners performing the same procedures are expected to arrive at the same findings.

We also believe that ED-ISRS 4400 could specifically emphasize that compliance with the fundamental principle of professional competence and due care is required in the conduct of an AUP engagement. In particular, refer to our suggestion in the Other matters section of this letter to require practitioner action when the practitioner becomes aware of facts or circumstances that suggest procedures are inappropriate during course of engagement.

18. Grant Thornton International Limited

We agree that there is a role for the exercise of professional judgment in an agreed-upon procedures (AUP) engagement and that it is important that the right balance is struck between the exercise of professional judgment and the nature of an AUP engagement whereby the practitioner performs procedures acknowledged by the engaging party.

We are of the view that the definition of professional judgment in the context of an AUP engagement is appropriate, but have the following comments on ED-4400

- We suggest that paragraph A15 be modified as follows for consistency with other references in ED-4400 to the “timing” of procedures: “discussing the nature, timing and extent, and if applicable, the timing of the procedures to be performed”.
- With respect to paragraph A16, we find the following sentence confusing:
  “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.”

This implies that if professional judgment is required in designing the procedure, it should not be included in an AUP engagement. We are of the view that professional judgment in this instance should be replaced by subjective, i.e., “the more subjective the procedure, the more the practitioner may need to consider…” as we believe this more accurately depicts the current practice considerations regarding whether procedures are appropriately defined.

19. Kingston Smith

Yes, we agree that the material on professional judgement provides welcome clarity over the role it plays in an AUP engagement, and that the exercise of judgement is different for such an engagement compared to an assurance engagement.

20. KPMG IFRG Limited

We are supportive of the inclusion of a definition, new requirement and related application material in respect of professional judgement in an agreed-upon procedures engagement. We agree with the IAASB’s assessment that “although the exercise of professional judgement in an AUP engagement is different to the exercise of professional judgement in an assurance engagement, it is not suspended altogether.”
Notwithstanding the above, we are concerned that the definition, in referring to “relevant training, knowledge and experience, within the context provided by professional standards”, is not sufficiently precise in terms of which professional standards are referenced, as well as which training, knowledge or experience may be relevant.

We understand that the definition may be derived from the equivalent definition set out in ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, however, we note that the definition in ISAE 3000 (Revised) includes reference specifically to assurance standards, and not professional standards more broadly. As drafted, the reference in the ED to “professional standards”, especially if considered together with the reference to “relevant” training, knowledge and experience, may result in a broad interpretation by stakeholders to incorporate audit and assurance training, knowledge and experience, as well as matters addressed by audit and assurance standards. It may even be inferred by users that professional scepticism, in addition to professional judgement, is expected to be exercised by a practitioner, which we do not consider to be relevant or appropriate in an agreed-upon procedures engagement.

Accordingly, we suggest that the IAASB revise the definition to restrict reference to professional standards to ISRS 4400 (Revised) and applicable ethical requirements, and similarly clarify that training, knowledge and experience is specifically regarding agreed-upon procedures engagements.

Exercise of Professional Judgement When Determining That the Preconditions for an AUP Engagement Exist

Regarding the applicability of the requirement for the practitioner to exercise professional judgement in “accepting and conducting” an agreed-upon procedures engagement, we agree that it is critical that a practitioner exercise professional judgement when accepting an engagement, i.e. when determining whether the preconditions for an agreed-upon procedures engagement are present, as described at paragraph 20, and whether, as described at paragraph 21, based on the practitioner’s understanding of the purpose of the engagement, 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 agreed-upon-procedures engagement. Accordingly, we welcome the inclusion of examples such as “discussing the nature, timing and extent of the procedures to be performed” in the related application material.

In connection with this, we suggest that paragraph 21 be expanded to also require the practitioner to assess, as a precondition to an agreed-upon procedures engagement, that there is a rational purpose to the engagement. We recognise that paragraph 21 requires the practitioner to understand the purpose of the AUP engagement and if, based on that understanding, the practitioner is aware of any facts or circumstances suggesting the procedures the practitioner is being asked to perform are inappropriate for the purpose of the engagement, the practitioner is not to accept the engagement. We highlight that consideration as to whether there is a rational purpose to the engagement would involve the practitioner considering whether the actual purpose of the engagement is appropriate, in addition to merely understanding the purpose. We suggest that the IAASB develop related application material to describe that such assessment would include identification of the (intended) users of the report and consideration of their needs, as well as consideration as to whether an agreed-upon procedures engagement, as opposed to another form of engagement, e.g. an assurance engagement or an advisory engagement, would be the most appropriate deliverable. The application material at A27 and A28, as well as A16, allude to this, however, we believe the standard should address this more explicitly, as in many circumstances, this consideration may be a fundamental aspect of the engagement acceptance decision.
We are concerned that, as drafted in paragraph 18, there is equal emphasis on the need to exercise professional judgement in “conducting” the engagement, as well as in “accepting” the engagement. This appears to contradict a key feature of agreed-upon-procedures engagements, which is also included in the definition of “findings” at paragraph 13(f), that “findings are capable of being objectively verified and objectively described”.

We agree that the practitioner needs to apply professional judgement in considering, when agreeing the procedures at the engagement acceptance stage, whether related findings would be expected to be capable of being verified and described in an objective manner, and considering whether terminology expected to be used in descriptions of both procedures and findings may be unclear, misleading, or subject to varying interpretations.

We highlight that the practitioner complies with the ethical principles of professional competence and objectivity in performing the procedures, which we believe address the considerations the practitioner makes in, for example, amending procedures during the course of the engagement.

We recommend, therefore, that the IAASB clarify this in the application material by emphasising that such considerations are made mainly at the preliminary stages of the engagement, and avoiding undue emphasis regarding exercise of professional judgement during the performance of the engagement.

We also suggest that the last sentence of paragraph A16 be amended to state that “The more the performance of a procedure requires the exercise of professional judgment in addition to professional competence and objectivity, the more the practitioner may need to consider whether the condition that … is present”.

We recognise that in certain circumstances the practitioner may need to modify certain agreed-upon procedures, or discuss the performance of additional procedures with the engaging party, for example, if new information comes to light during the engagement. We recommend the IAASB consider the inclusion of more detailed guidance and examples regarding this scenario, including consideration of whether, in amending the procedures that have been agreed to, the practitioner needs to exercise professional judgement about whether the pre-condition that the agreed-upon procedures and findings are capable of being described objectively, in terms that are clear, not misleading and not subject to varying interpretations, remains present.

Furthermore, new information may have a bearing on matters such as the practitioner’s understanding of the purpose of the engagement, and whether procedures may be inappropriate, as well as on considerations that are critical at the engagement acceptance stage, such as whether the practitioner has any concerns regarding the integrity of management. We recommend that the IAASB also provide guidance in the ED as to the steps a practitioner may take if information becomes known to the practitioner during the course of performing the engagement, that, had it been known to the practitioner at the time of engagement acceptance, may have caused the practitioner not to accept the engagement, or may have had a significant bearing on the nature and extent of the procedures agreed upon. Such guidance may address, for example, discussing the matter with the engaging party, seeking legal advice, and whether the practitioner may withdraw from the engagement, if permitted by local laws and regulations.

Additionally, we suggest that the application material clearly explain that although the practitioner exercises professional judgment if they become aware of certain matters, e.g. potential NOCLAR or fraud, they are not required to perform procedures to identify such circumstances, or even to remain alert for them, as
would be applicable in an audit or assurance engagement, as an AUP engagement is not an audit/assurance engagement.

21. PKF

It is our recommendation that the information included in the explanatory materials be moved to the main standard as the extent of professional judgement may be misleading. This is due to the fact that the revised standard notes that the application and other explanatory materials need not be complied with, but should rather be viewed as additional guidance.

We do however agree with the extent of professional judgement to be applied during these types of engagements.

22. PricewaterhouseCoopers International Limited

We agree that professional judgement is required in undertaking an AUP engagement and broadly support the proposed revisions to address this topic within the standard, including the specific examples used to illustrate where judgement is applied.

In performing AUP, a practitioner complies with the fundamental principles as set out in the Code of Ethics (or equivalent requirements that are as robust), including objectivity and professional competence and due care. In applying professional competence and due care, the practitioner does not, however, apply significant professional judgement, as the procedures agreed with the engaging party need to be objective and result in objective factual findings.

However, we support the clarification within the proposed standard of the role that professional judgement plays in accepting and conducting an AUP engagement.

The need to make decisions that require professional judgement in performing the procedures is likely to be limited. As the practitioner reports findings only, we agree with the proposal in the ED that it is important that the AUP and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretation. Otherwise, there is a risk that users might draw unwarranted assurance. This will restrict the nature of procedures to those where decisions involving professional judgement in performing them, or in how the findings are to be reported, are limited.

We support paragraph A16 of the application material that recognises the fact that there may be limited judgement necessary in some circumstances. However, we believe the language used may lack sufficient clarity, with the potential for differing interpretations as to how, and the extent to which, the practitioner may apply professional judgement in performing the AUP. We believe a final sentence could be added that would more directly explain that a procedure that requires the exercise of more than a limited amount of professional judgement in its performance, or in analysing the results thereof, is unlikely to meet the engagement acceptance and continuance pre-conditions.

Perhaps the most common application of professional judgement by practitioners is in assisting in the design of the procedures performed. Users may not know what type of procedures can be performed or nature of findings that can be reported. This may involve the practitioner working with management or those charged with governance to help them design appropriate procedures that meet their individual needs, or circumstances in which practitioners may work with a regulator or funding agency to assist in developing specific procedures to meet a regulatory requirement that are then used across a population of entities. We believe this important aspect of the practitioner’s role could be better reflected in the application material, for example following on from paragraph A20. Such guidance could usefully cross-reference to paragraph 22.
(b) to act as a reminder that, notwithstanding any assistance by the practitioner in designing the procedures to be performed, it remains critical that the engaging party ultimately takes responsibility for acknowledging the appropriateness of the procedures. We therefore support the engagement acceptance precondition, in paragraph 20 (a), which directly addresses the need for this acknowledgment from the engaging party.

23. RSM International

Yes, we believe that the role of professional judgment is appropriately described in ED-4400. We welcome the guidance which sets out the areas in which professional judgment can be exercised in determining the scope of an AUP engagement and the reporting thereon, whilst recognising that the findings from the procedures carried out are factual in nature rather than subject to the exercise of judgment.

24. Auditor General of Canada

Yes, we believe the definition, requirement and application material on professional judgment appropriately reflect the role it plays in an AUP engagement. It may be appropriate to also include reference to continuance decisions in the requirement stated in paragraph 18 to address situations of continuing AUP engagements.

25. US Government Accountability Office

Based on our review of the definition presented in paragraph 13(j), we do not believe that it sufficiently considers professional skepticism or reasonable care. Both are described in part in paragraph A15, but the definition itself could include elements related to professional skepticism and reasonable care. In addition, we believe that the requirement in paragraph 18 should be modified to include information on reporting as part of the requirement where professional judgment is included. Finally, the use of “taking into account the circumstances of the engagement” is unclear; while it is partially addressed in paragraph A16, an additional paragraph in the application and other explanatory material to explain this would be helpful to the user.

26. National Audit Office of Tanzania

The definition, requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 reflect the role professional judgment plays in an AUP engagement. However I find that paragraph A16 has superfluous at its end. The words “is present” at the end sound misleading.

27. Provincial Auditor Saskatchewan

Yes, the definition, requirement and application material on professional judgment appropriately reflect the role professional judgment plays in an AUP engagement.

28. Association of Chartered Certified Accountants - Chartered Accountants Australia and New Zealand

We agree with the board’s view that professional judgement does have a role to play in many aspects of an AUP engagement. We also believe ED-4400 now makes it clearer in what circumstances of an AUP engagement it is appropriate to exercise that judgement.

However, the use of the term “conduct” when referring to the phases of an AUP engagement other than acceptance/continuance may be confused as referring to the actual performance of the procedures. We therefore consider that the guidance supporting paragraph 18 be tightened to specifically note when it is inappropriate to apply professional judgment. We recommend these circumstances include:

• determining the sufficiency of procedures;
• performance of the procedures;
• making decisions about the quality or adequacy of evidence; and
• presenting the factual findings (i.e., report only the facts, not extrapolations, estimates or other evaluations based on the facts).

For clarity, this should be done in the same way as the appropriate applications of professional judgement are presented in paragraph A15.

Paragraph A16 can then be used, as it currently is, to explain why these distinctions are being drawn. However, the final sentence of paragraph A16 should be removed as it impairs the clarity that is needed around AUP procedures (ones that require no judgement).

We also consider that, given the importance of this topic, some additional wording is required to ensure that members document where and why they have (appropriately) exercised professional judgment, especially in the engagement acceptance and continuance decision making process. This could be done by including an additional subsection in paragraph 34 regarding documenting evidence of compliance with the standard which specifically identifies the appropriate exercise of professional judgment as a matter to be addressed (see question 11).

29. Accountancy Europe

As stated above, a lot of countries have developed their own standards to cope with the fact that ISRS 4400 was outdated. The professional judgement aspect as included in ED-4400 may give rise to some challenges in these countries to reconcile how they have moved on at national level with how the IAASB has decided to move forward in this ED. We welcome that ED-4400 allows for flexibility and is applicable to different scenarios - to the extent reasonable.

The last sentence of paragraph A16 is confusing and may lead to misunderstanding. We suggest deleting it.

As per its definition, professional judgment relates to making informed decisions about alternative courses of action. In AUP engagements, professional judgment applies, but its role differs from that in an assurance engagement and this should be very clear to our stakeholders. We think additional wording in paragraph 18 may help clarify that using professional judgement to agree the exact nature of the AUP engagement is key to ensure that the AUP is properly planned and can be executed appropriately.

Additionally, in paragraph 20, while emphasising on the fact that strict language should be used, that AUP should be as specific as possible in terms of nature, timing and extent such that no or minimised alternative courses of action exist, it is important to point out that ISRS 4400 does not generally cover the interpretation of the findings nor any recommendations. Practitioners may perform these additional services in addition, but normally not as part of an AUP.

Nevertheless, the majority of our members recognise that there may, in some instances, be a need for professional judgement to be applied in performing many specific aspects of the AUP engagement (as explained in paragraph 15) and accept the need for some sort of flexibility in the international standard. That being said, the statement in paragraph A10 “different practitioners performing the same procedures are expected to arrive at the same results” is key to an understanding that the standard relates solely to factual results, which means that professional judgement should normally not be applicable to the actual
performance of the agreed-upon procedures. Given the relevance of this statement, we suggest it be more prominent - possibly reflected within the definition of the term “findings”.

30. American Institute of Certified Public Accountants

Response: Yes.

As acknowledged in the Explanatory Memorandum, while the Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements states that the nature of International Standards requires the professional accountant to exercise professional judgment in applying them, professional judgment is not discussed in extant ISRS 4400. Incorporating a definition, requirement, and application material on professional judgment that appropriately reflects the role professional judgment plays in an AUP engagement is a clear enhancement of the standard and will result in more consistent application by practitioners.

Further, we agree that the proposed definition of professional judgment in paragraph 13(j) is appropriate.

However, we recommend that paragraphs 18 and A14 be revised as follows (proposed new language is in boldface italics; proposed deleted is in strikethrough):

18. The practitioner shall apply exercise professional judgment in accepting and conducting planning and performing an agreed-upon procedures engagement, taking into account the circumstances of the engagement. (Ref: Para. A14-A16)

A14. Professional judgment is applied in the acceptance and essential to the proper conduct of an agreed-upon procedures engagement. This is because professional judgment is necessary to interpretation of and apply relevant ethical requirements and this ISRS, and in making and the informed decisions required throughout the engagement cannot be made without the application of relevant knowledge and experience to the facts and circumstances about courses of action throughout the agreed-upon procedures engagement.

The proposed revisions would result in consistency with the requirement and corresponding application guidance from paragraphs 16 and A25 of ISA 200 (Revised), Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing. While we agree that the exercise of professional judgment in an AUP engagement differs from that in an assurance engagement, we believe that the qualifier “taking into account the circumstances of the engagement” appropriately differentiates the services. We believe that any additional differences would result in practitioner confusion.

While we recognize that the International Code of Ethics for Professional Accountants (including International Independence Standards) includes provisions for avoiding association with misleading information, we believe that the last bullet in paragraph A15 may confuse practitioners and suggest that the phrase “or indicate that the information may be misleading” be deleted as it raises the question as to what context the information may be misleading.

Finally, the last sentence in paragraph A16 also may lead to confusion as the example seems to run to the subjectivity of the procedure as opposed to professional judgment. We propose that paragraph A16 be revised as follows (proposed new language is in boldface italics; proposed deleted is in strikethrough):

A16. Unlike in an assurance engagement, the procedures performed in an agreed-upon procedures engagement are not designed by the practitioner to obtain reasonable or limited assurance evidence
that provides a basis for an opinion or conclusion. Rather, an agreed-upon procedures engagement involves the performance of the specific procedures that have been agreed upon with the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. The more a procedure requires professional judgment, for example, when the procedures are more subjective, the more the practitioner may need to consider whether the condition that the agreed-upon procedures can be performed and findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations is present.

31. Chartered Accountants Ireland – Audit and Assurance Committee

Yes, the definition and requirement are sufficiently clear. The definition of professional judgement aligns with the definition in ISAE 3000 and it is useful to have this consistency.

In respect of the application material, one recommendation in respect of the application material provided is to make it clear that although the exercise of professional judgement is not suspended in an AUP engagement, the "extent" to which it is exercised only goes as far as ensuring that due care is exercised and in the context of professional competence. Examples are provided however, an overarching rule/principle on the extent in this regard could be added and would help further clarify the actions of the practitioner when performing an AUP engagement.

32. CPA Australia

We consider that it is important to address the role of professional judgement in an AUP and so we are supportive that this has been included in the proposed standard. The way professional judgement is applied is a key differentiating factor which sets assurance engagements apart from non-assurance engagements, including AUPs. This is acknowledged in the explanatory memorandum Paragraph 11 which states "the application of professional judgment when performing procedures in an AUP engagement differs from that in an assurance engagement". We support the delineation in the application paragraphs between the extent to which professional judgement can be applied in an AUP in contrast to an assurance engagement, however we do not think that difference is adequately reflected in the requirement itself.

The requirement (paragraph 18) states that professional judgement shall be applied "in accepting and conducting an agreed-upon procedures engagement" (emphasis added), without specifying that the exercise of judgement is limited in an AUP engagement. The aspects of an AUP engagement where professional judgement may be applied are explained in the application material (paragraphs A14-A16) and we are supportive of that interpretation. However, "conducting" is a broad term, which could reasonably be interpreted to include aspects of the engagement which may be subjective, such as determining the procedures to be conducted, modifying those procedures or evaluating the findings. This subjectivity in relation to determining procedures is only appropriate in an assurance engagement, where an assessment of the sufficiency and appropriateness of the evidence is necessary. Some of our members feedback has indicated that they see value in applying professional judgement in conducting an AUP as it can be seen as synonymous with the practitioner’s exercise of professional competence and skill. Therefore, we recommend that, if professional judgement is retained in conducting the engagement, that the requirement is amended to limit professional judgement to enabling the competent conduct of the agreed procedures without the practitioner taking responsibility for determining the procedures to be conducted, modifying those procedures or evaluating the findings.
The IESBA Code of Ethics for Professional Accountants (the Code) requires professional accountants to comply with the fundamental ethical principles, including professional competence and due care, in all of their work, but the Code notes that certain services are routine and mechanical in nature and so require little or no professional judgement. We consider that to be the case in an AUP engagement.

The equivalent standard issued in Australia sets out the position more explicitly, in ASRS 4400 paragraph 25, by stating that “the assurance practitioner will not be required, during the course of the engagement, to exercise professional judgement in determining or modifying the procedures to be performed” (emphasis added). A similar requirement could be included in ISRS 4400.

33. European Federation of Accountants and Auditors for SMEs

Yes, we agree.

As stated above we believe that professional judgment applied for the actual performance of the procedures may considerably increase the value added of an AUP. While this may change the nature of the engagement from identifying and communicating (factual) findings to interpreting findings and making recommendations we believe that many stakeholders will find this valuable. The therefore encourage the Board to consider introducing some flexibility in ISRS 4400 to allow for professional judgment to be applied in performing the AUP engagement.

34. Federation of Accounting Professions in Thailand

Answer: Overall is appropriate however we concern on using professional judgment when determining appropriate action on indicated fraud or integrity of the information relevant to the agreed-upon procedure agreement. To support the implementation, should clarify more about the circumstance, scoping and how to use judgment by providing applicable material that will reduce practitioner’s confusing over AUP engagement and Assurance engagement.

35. FAR (Institute for the Accountancy Profession in Sweden)

Professional judgment is a term that is strongly associated with assurance engagements. Even if the procedures in an AUP engagement should result in objectively verifiable factual findings the practitioner uses his or her judgment in some way. For example, when deciding if there are verifiable factual findings and if the procedures are sufficient to meet the client's need and are appropriate due to the objectives. Judgment is also used when analysing risks of misstatement caused by fraud or error. FAR agrees that the term professional judgement shall be used in the context of an AUP engagement and that it is suitable that the term has been defined in this context. The requirement in paragraph 18 and application material in paragraphs A14-A16 is appropriate. The definition in paragraph 13 (j) uses the term "professional standards". According to the Glossary of Terms in the Handbook there are two definitions of professional standards, one general and one in the context of ISQC 1. The general definition is International Standards on Auditing (ISAs) and relevant ethical requirements. Is it this term that IAASB means in ISRS 4400 (Revised)?

36. FSR Danske Revisorer (Danish Institute of Accountants)

Definition of professional judgment - paragraph 13j

We note that the definition of professional judgment in ED-4400 is similar to the definition in ISA 200, except that it is not being used for making informed decisions about the courses of action that are appropriate in audit engagements, but in agreed-upon procedures engagements.
Since there is no application and other explanatory material related to the definition of professional judgment as set out in paragraph 13(j), we believe that the definition is unclear. We note that the definition in ISA 200, 13 (k) + 16 has related application and other explanatory material A25-A29. We suggest that related application guidance is added to the definition to clarify the definition in the context of an agreed-upon procedures engagement, for example by including wording from ISRS 4400 ED A14-A16 and the application guidance in ISA 200 that is related to the definition of professional judgment.

**Requirement on professional judgment – paragraph 18**

The requirement states that the practitioner shall apply professional judgment in accepting and conducting an agreed-upon procedures engagement, taking into account the circumstances of the engagement.

The requirement does not clearly describe under which circumstances professional judgment should be applied as it states that this should be applied in accepting and conducting an agreed-upon procedures engagement, which is only some of the different elements in an AUP engagement.

We suggest that the wording is amended to clarify that professional judgment should be applied throughout the AUP engagement. It should also be considered if the standard should emphasize that professional judgment should be applied in:

1. Engagement Acceptance and Continuance
2. Agreeing the Terms of the Engagement
3. Performing the Agreed-Upon Procedures
4. Using the Work of a Practitioner’s Expert
5. The Agreed-Upon Procedures Report

**Application material**

In our opinion, the application guidance should be structured to match the bullet points above in a way that clarifies how professional judgment should be applied throughout the different stages of an AUP engagement.

In paragraph A16 the following is stated:

“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.”

In our opinion, it is essential to keep this in mind when applying professional judgment in an AUP engagement. To emphasize the importance of this and make this even clearer to the user of the AUP report, we suggest that the statement above is included as a separate bullet point or section in the application guidance.

In paragraph A15 the following is stated:

"Determining appropriate actions if the practitioner becomes aware of:

- Facts or circumstances suggesting that the procedures to which the practitioner is being asked to agree are inappropriate for the purpose of the agreed-upon procedures engagement.
- Matters that may indicate fraud or an instance of non-compliance or suspected non-compliance with laws or regulations."
− Other matters that cast doubt on the integrity of the information relevant to the agreed-upon procedures engagement, or indicate that the information may be misleading."

In our opinion, the paragraph above should be expanded with application materials on suggested actions in case the practitioner becomes aware of the abovementioned issues.

37. **Inter-American Accounting Association**

Yes, we understand that definition contained in paragraph 13 (j), the requirement of paragraph 18 as well as the application and other explanatory material of paragraphs A14 to the A16, adequately and appropriately reflect the role of professional judgment in assuming and Execute a AUP commitment. In particular we think that the detail of the explanatory material is rich in guidance for the professional accountant who leads a work with agreed scope, which as the Explanatory Memorandum says is in clear progress.

38. **Instituto dos Auditores Independentes do Brazil**

We do not agree with the inclusion of paragraphs 13(j) and 18 and related application material the way is written. As we mentioned in our responses to the discussion paper, professional judgment within the context of an AUP should be limited to the initial phase that is, engagement acceptance decision and planning / design the procedures. During that stage, the practitioner is required to analyze and determine if the third party's request adequately fits the scope required by the ISRS 4400. Thus, once professional judgement is properly applied within the initial determination of the procedures, no additional professional judgment should be observed when conduction the AUP. Professional judgment, when required after the initial phase - conducting the AUP and corresponding findings, is not appropriate in the ISRS 4400 scope. This scenario can suggest that the engagement is related to assurance.

39. **Institut des Réviseurs d’Entreprise/ Instituut van de Bedrijfsrevisoren (Belgian Institute)**

We appreciate the effort of the Board to clarify that professional judgement has a role in Agreed-Upon Procedures Engagements. However, we feel that paragraph A14 is clearer than paragraph 18. We therefore suggest elevating paragraph A14 as a requirement and to keep paragraphs A15-A16 as application material. The main reason for suggesting this approach is that paragraph A14 is more informative than paragraph 18 and hence clearer. We live in a jurisdiction where application material cannot add (an) additional requirement(s) or alleviate an existing requirement.

We believe that the last bullet of paragraph A15 is particularly important. When a practitioner while performing an agreed-upon procedure becomes aware of information that is relevant to the engaging party and is in relation to the performed procedure, the auditor should apply professional judgement in considering whether or not this information should be shared with the engaging party.

40. **Institute of Chartered Accountants in England and Wales**

Yes, we are broadly supportive of the changes in the ED in relation to professional judgement, though we believe that the application material in A16, in particular the last sentence, is vague. The point that we think is being made is that the practitioner would be questioning whether the conditions of an AUP engagement, as defined by the ED, are being met where the performance of a procedure required professional judgement.
41. Institute of Chartered Accountants of Namibia

Yes

42. Institute of Chartered Accountants of Pakistan

We understand that a level of professional judgement is required in undertaking an AUP engagement and recognise the IAASB efforts in bringing clarity to this important area.

With regard to the definition of professional judgment we note that it is similar to the definition provided in the ISA 200 & ISAE 3000. Based on the understanding that an assurance engagement is not similar to an AUP engagement, the proposed definition seems broad and therefore requires refinement. Further, the term “professional standards” contained in the proposed definition also requires clarity.

In an AUP engagement the acceptance and agreement to perform procedures would require practitioner’s application of professional judgement. However, the execution of procedures in an AUP engagement would involve limited use of professional judgment. In this context, the requirement to use professional judgment in conducting the engagement (as per para 18 of the ED) would result in the practitioner including subjectivity in the performance of an AUP. Further, under paragraph A16 an explanation that the AUP engagement acceptance and continuance pre-conditions would be affected where more than a limited amount of professional judgement in performing it or in analyzing the results would be helpful. In view of above, we note that the currently drafted guidance on professional judgment may result in unintended consequences that the procedures performed include subjectivity and are not necessarily factual findings.

We suggest that in the proposed standard the role and application of professional judgement be reconsidered and redrafted to align it with the underlying concept of AUP engagement.

43. Institute of Chartered Accountants of Scotland

Professional judgement is the process of making informed decisions about alternative courses of action. In AUP engagements, professional judgement applies, but its role differs from that in an assurance engagement and this should be made very clear to stakeholders. We believe that this may be achieved by inserting additional wording in paragraph 18 to help clarify that using professional judgement to determine the exact nature of an AUP engagement is key to ensure that the AUP engagement is properly planned and appropriately executed. However, it is also important to emphasise that ISRS 4400 does not extend to the interpretation of findings nor any recommendations. Practitioners may perform these additional services but normally not as part of an AUP engagement.

Nevertheless, there may be instances where some judgement may be necessary during the course of the engagement hence we support the need for a degree of flexibility to be reflected in the standard.

44. Institute Of Certified Public Accountants Of Uganda

We support the approach applied in defining professional judgment. We equally found the examples provided in the application material helpful and illustrative as professional judgment in all engagements is critical whether in planning, execution or reporting.

45. IFAC SMP Committee

We support the IAASB’s view that professional judgment is not suspended in an AUP engagement and to distinguish that it is uniquely applied in these circumstances. We agree that considerable professional judgment will be required in undertaking almost all activities, including those noted in para. A15.
However, as stated in our response to the Discussion Paper, professional judgment (which, by definition, always involves a choice between alternative courses of action) cannot be required for the actual performance of the procedures because the findings would no longer represent factual findings. The nature of the engagement would also become blurred compared to an assurance engagement. ISRS 4400 (Revised) follows extant ISRS 4400 in that the performance of the agreed-upon procedures continues to result in a report on the findings of factual results, i.e. there is little subjectivity involved (see the requirement in para. 20 (b)). In our opinion, paragraph 18 (supported by A14) needs to be clearer about where professional judgment can be applied, and more importantly, where not. In this context, we also disagree with the last sentence of para. A16 and suggest it be deleted or clarified: “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”.

The SMPC also notes that the information in paragraph A10: “different practitioners performing the same procedures are expected to arrive at the same results” is key to a proper understanding of an AUP under ISRS 4400 (Revised). It would be helpful to include this text within the definition section (i.e., “findings”).

46. Institute of Singapore Chartered Accountants

- We agree with the requirement to apply professional judgement in accepting and conducting an AUP engagement. This reaffirms the current market practice by practitioners.

- The definition of “professional judgement” makes reference to “professional standards”, which is not defined in the ED. If “professional standards” refers to the same term as defined in the IAASB’s Glossary of Terms (Glossary), then it would not be appropriate as “professional standards” is defined in the Glossary as “International Standards on Auditing (ISAs) and relevant ethical requirements” (i.e. it is defined in the auditing context). For the purpose of this standard, it will be more relevant for the IAASB to define “professional standards” in the context of ISRS 4400 or use another term.

- We agree with the areas identified in paragraph A15 of ED-4400 where professional judgement is commonly applied. We suggest providing more guidance on how the practitioner can address certain situations when the matters highlighted come to the practitioner’s attention. In particular, when the practitioner becomes aware of matters that may indicate fraud or instances of non-compliance or suspected non-compliance with laws or regulations, considering the limited use of professional judgement in an AUP engagement, it should be highlighted that the practitioner is not required to perform procedures to obtain additional information about the fraud or non-compliance.

- Professional judgement is also applied in the following areas which we believe should be included in paragraph A15 as well:
  - Deciding whether to accept an AUP engagement; and
  - Describing the granularity of findings in the AUP report.

- We also suggest to include in paragraph 4 of ISRS 4400 (Revised), as one of the values of an AUP engagement performed in accordance with the standard, the exercise of professional judgement by the practitioner.
47. Korean Institute of Certified Public Accountants
We support that requirements and application material on professional judgment are appropriately reflected in an AUP engagement. Additional description that when it comes to applying professional judgment, however, the responsibility for sufficient procedures to be performed in an AUP engagement lies to the engaging party needs to be made.

48. The Malaysian Institute of Certified Public Accountants
Yes, MICPA agrees that the definition, requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role professional judgment plays in an AUP engagement.

49. New York State Society of CPAs
We concur with the ED’s requirements and the related application material discussing professional judgment.

50. South African Institute of Chartered Accountants
- We are in support of the IAASB view that professional judgement is not suspended in an AUP engagement as stated in paragraph 11 of the Explanatory Memorandum and that professional judgement will be required in undertaking in almost all activities. The same paragraph states the application of professional judgement when performing procedures in an AUP engagement differs from that in an assurance engagement.
- 72% of survey respondents agree that the definition, requirement and application material related to professional judgement appropriately reflect the role it plays in an AUP engagement.
- However, professional judgement cannot be required for ‘conducting an agreed-upon procedures engagement’ (paragraph 18 of ED-4400), as this will result in the findings no longer presenting factual findings. We suggest that ED-4400 clarifies where professional judgement cannot be applied.
- In this context it is suggested that the last sentence of paragraph A16 is either clarified or deleted to avoid misunderstanding: The more a procedure requires professional judgement, the more the practitioner may need to consider whether the condition that the agreed-upon procedures and finding can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretation is present.
- Based on the above paragraph A10 is key in understanding an AUP engagement under ISRS 4400 (Revised) and would be helpful if included in the paragraphs of the standard and not in the application material: “different practitioners performing the same procedures are expected to arrive at the same result”.

51. Wirtschaftsprüferkammer (German Institute)
We basically agree with the proposed definition and requirements of professional judgement in the draft. Professional judgement is used throughout an agreed-upon procedures engagement (for instance during acceptance, agreeing terms of engagement, considering the use of a practitioner’s expert and determination of adequate procedures).
But we do not think that the exercise of professional judgment can take place in the actual performance of the agreed-upon procedures. This would change the nature of the engagement from identifying and communicating (factual) findings to interpreting findings (“expressing an opinion”).

52. Training and Advisory Services & Chartered Accountants Academy
Yes, they do. Professional judgement implications would seem limited in AUP engagements since the procedures are agreed upon, however, professional judgement should always be exercised by practitioners. The definition helps practitioners and users to understand what professional judgement is and then paragraph 18, along with supporting material, helps to clarify when it is useful.