

### IAASB Agreed-Upon Procedures Working Group Discussion Paper

#### Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards

*This publication has been prepared by the Agreed-Upon Procedures (AUP) Working Group (the Working Group) of the International Auditing and Assurance Standards Board (IAASB). The Working Group was formed in 2015 to assist the IAASB in its information-gathering activities to understand the use of AUP engagements, national developments in relation to standards addressing AUP engagements, and broader market needs.*

*This publication does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override the International Standards issued by the IAASB.*

1. The purposes of this Discussion Paper are to:
  - Highlight the key features of AUP engagements performed in accordance with the IAASB's ISRS 4400;<sup>1</sup> and
  - Obtain views from stakeholders on the issues in this Discussion Paper to help inform the development of a standard-setting project proposal to revise ISRS 4400 and consider any other activities that may be necessary.
2. In particular, this Discussion Paper explores:
  - Current demands for AUP engagements, the implications for standard-setting by the IAASB and, in particular, the extent to which users and practitioners find existing requirements and guidance helpful in producing an AUP report that is valued by users (**Section II**); and
  - The demand for engagements that combine reasonable assurance engagements, limited assurance engagements and non-assurance engagements, such as AUP engagements, to meet emerging needs. (**Section III**).

Stakeholder views on these topics will be helpful to the IAASB in determining what is needed in the public interest, including standard-setting and other possible activities. Questions have been included throughout this document, but are listed in full on pages 18-19.

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<sup>1</sup> International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

## What is an Agreed-Upon Procedures Engagement?

ISRS 4400 establishes requirements and provides guidance for AUP engagements.

Under ISRS 4400, an AUP engagement involves a practitioner performing procedures that have been agreed to by the practitioner, the entity and any appropriate third parties, and reporting on the factual findings resulting from performing the procedures. Users of the AUP report assess for themselves the procedures performed and the factual findings and draw their own conclusions. In conducting an AUP engagement in accordance with ISRS 4400, the practitioner does not obtain assurance or express an opinion, but merely performs procedures and reports factually on any findings as a result of performing those procedures. Appendix A provides some examples of AUP engagements.

In contrast, an assurance engagement involves the evaluation or measurement of a subject matter (such as financial transactions and events) against a set of criteria (such as a financial reporting framework) to reach a reasonable assurance conclusion (such as an audit opinion) or a limited assurance conclusion (such as a review conclusion). A reasonable assurance conclusion conveys the practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria. A limited assurance conclusion conveys whether, based on the procedures performed and evidence obtained, anything has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated.

Engagement Type	AUP	Audit	Review
<b>Standards</b>	ISRS 4400	International Standards on Auditing (or ISAs)	International Standards on Review Engagements (or ISREs)
<b>Work effort</b>	The agreed-upon procedures, as the basis for the factual findings report	Risk assessment and audit procedures that respond to the risks of material misstatement identified, to obtain sufficient appropriate evidence to support the audit opinion	Primarily inquiry and analytical procedures, to obtain sufficient appropriate evidence to support the review conclusion
<b>Report</b>	Report of factual findings	Opinion (reasonable assurance)	Conclusion (limited assurance)

## I. Introduction

### *Who Uses an AUP Report? Why Are AUP Engagements Performed and What Are Their Benefits?*

3. A wide range of stakeholders use AUP reports for a variety of reasons. For example, regulators, funding bodies, creditors and others often ask for AUP reports to support or complement information such as audited financial statements or loan or grant applications. AUP engagements may be requested on financial and non-financial information. **Appendix A** provides further examples of different kinds of AUP engagements.
4. The demand for AUP engagements continues to grow, in particular in relation to the need for increased accountability around funding and grants. In addition, changes in regulation (such as the increase in audit exemption thresholds in many jurisdictions) has also driven demand for AUP engagements, especially from smaller entities, as the increased audit exemption thresholds prompt stakeholders to look for alternative services to an audit. For example, banks in some jurisdictions request AUP engagements on receivables and inventory in lieu of audited financial statements.
5. Although AUP engagements do not result in an assurance conclusion, they are valued because:
  - They can be tailored to address specific needs in a more efficient and targeted manner than audits or reviews; and
  - They are performed by professional accountants who act with professional competence and due care.

### *Why Is the IAASB Undertaking Work on AUP Engagements?*

6. ISRS 4400 was developed over 20 years ago and continues to be widely used in many jurisdictions. In its *2012–2014 Strategy and Work Program*, the IAASB planned to revise ISRS 4400 to respond to broad calls from small and medium practitioners (SMPs) and other stakeholders who had indicated that investors, banks and other providers of capital often request an entity to have an AUP engagement performed by a practitioner, in lieu of an audit or in order to ensure that specific procedures are performed on key account balances. The standard also needs to be updated to the Clarity format.<sup>2</sup> This project was postponed to the next IAASB work plan due to the prioritization of the IAASB's Auditor Reporting project.
7. In the intervening period, a number of jurisdictions, national auditing standard setters (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 Koninklijke

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<sup>2</sup> To revise ISRS 4400 in the Clarity format would broadly compromise the following:

- Identifying the practitioner's overall objectives when conducting an AUP engagement in accordance with ISRS 4400;
- Setting an objective in ISRS 4400 and establishing the practitioner's obligation in relation to that objective;
- Clarifying the obligations imposed on practitioners by the requirements of ISRS 4400 and the language used to communicate such requirements;
- Separating requirements from application and other explanatory material, with the requirements in a preceding section; and
- Improving the overall readability and understandability of ISRS 4400 through structural and drafting improvements.

Nederlandse Beroepsorganisatie van Accountants (NBA) have undertaken work to explore how AUP engagements can be enhanced in the light of the increasing demand.

8. In its *Work Plan for 2015–2016* (the Work Plan),<sup>3</sup> the IAASB agreed that it was important to further consider what could be done in relation to standards for services for entities that do not require an audit of financial statements. The Work Plan noted:

As the IAASB contemplates work on the topic of AUP in the next Work Plan, it has been noted that “hybrid” engagements, using a combination of procedures derived from review, compilation and AUP engagements, are being performed in some jurisdictions as a means of meeting the emerging needs of small and medium sized entities, among others. Accordingly, wider consideration will be given to exploring these evolving types of engagements to consider whether standard-setting or other activities may be appropriate, in light of the existing standards that may be applicable to these services in the IAASB’s current suite of standards.

***The IAASB established the AUP Working Group to study AUP engagements and other more holistic issues related to AUP engagements and to inform the IAASB’s decisions regarding these matters.***

***The Working Group consists of representatives from NSS that have recently completed AUP engagement standards, a member of an advisory group representing SMPs, and others who deal with AUP engagements in various capacities.***

***Since its inception in 2015, the AUP Working Group has conducted outreach with:***

- ***Users of AUP engagements such as securities regulators and funding agencies;***
- ***NSS in Africa, Asia, Europe and North America;***
- ***Practitioners performing AUP engagements, including representatives from large multi-national firms and the International Federation of Accountants’ SMP Committee; and***
- ***Other organizations subject to regulatory oversight, such as the Organisation for Economic Co-operation and Development.***

***The AUP Working Group has also benefited from the insights gained from the robust discussions on AUP engagements at the IAASB’s March 2015, June 2015, March 2016 and June 2016 meetings as well as the IAASB Consultative Advisory Group (CAG) September 2015 and March 2016 meetings.***<sup>4</sup>

***As part of the AUP Working Group’s information gathering activities, the Working Group has also considered relevant national developments, including the use of AUP engagements and what motivated NSS to make changes to their national standards, the nature and extent of changes from ISRS 4400 made by NSS in developing national standards, guidance on AUP in various jurisdictions, and the key issues that were deliberated at the national level.***

<sup>3</sup> <http://www.ifac.org/system/files/publications/files/IAASB-Work-Plan-2015-2016.pdf>

<sup>4</sup> Agenda material for the IAASB and IAASB CAG meetings is available at [www.iaasb.org/projects/agreed-upon-procedures](http://www.iaasb.org/projects/agreed-upon-procedures).

## II. Agreed-Upon Procedures Engagements

9. AUP engagements are used either as stand-alone engagements or as elements within multi-scope engagements (explored further in **Section III** of this paper). The Working Group's outreach confirmed that AUP engagements are widely used, and many stakeholders welcomed the IAASB's inclusion of work on AUP engagements in its Work Plan.
10. Modifications to the requirements of ISRS 4400 identified by stakeholders as meriting further exploration and consideration include:
- The role of professional judgment and professional skepticism in an AUP engagement;
  - The independence of the professional accountant;
  - Terminology in describing procedures and reporting factual findings in an AUP report;
  - AUP engagements on non-financial information;
  - Using the work of an expert;
  - Format of the AUP report;
  - AUP report restrictions; and
  - Recommendations made in conjunction with AUP engagements.

Each of these areas is discussed in more detail below.

### The Role of Professional Judgment and Professional Skepticism in an AUP Engagement

#### *Professional Judgment*

11. There are different views about professional judgment in the context of an AUP engagement. 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.<sup>5</sup> However, professional judgment is not discussed in ISRS 4400. A question arises as to what role, if any, professional judgment plays in an AUP engagement.
12. In the Working Group's view, the exercise of professional judgment is never suspended in an AUP engagement. However, the exercise of professional judgment may be limited to its exercise in the context of professional competence and due care.

#### *Professional Judgment in the Context of Professional Competence and Due Care*

13. ISRS 4400 requires the practitioner to comply with the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code).<sup>6</sup> The IESBA Code requires a practitioner to exercise professional competence and due care when performing a "non-

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<sup>5</sup> *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*, paragraph 17

<sup>6</sup> ISRS 4400, paragraph 7

assurance engagement” such as an AUP engagement. The principle of professional competence and due care imposes the following obligations on practitioners:

- To maintain professional knowledge and skill at the level required to ensure that clients receive competent professional service; and
  - To act diligently in accordance with applicable technical and professional standards when performing professional activities or providing services. Competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such a service.<sup>7</sup>
14. Consistent with the IESBA Code, practitioners exercise sound judgment in applying professional knowledge and skill in the performance of an AUP engagement by, for example:
- Avoiding being knowingly associated with false or misleading information by determining appropriate actions (including not accepting or withdrawing from the engagement) if the practitioner becomes aware of:
    - Procedures that the practitioner is being asked to agree to that are inappropriate in the context of the AUP engagement;
    - Procedures or findings that include terminology that is unclear or misleading;
    - Other indications that the information with which the practitioner is associated may be misleading in the context of the AUP engagement;
    - Matters that may indicate non-compliance with laws or regulations; or
    - Matters outside the AUP engagement relevant to the subject matter of the engagement, such as when a practitioner performing an AUP engagement on an entity's internal control procedures becomes aware of a material weakness through channels other than the AUP engagement.
  - Considering the appropriate users of the AUP report and the parties to whom the report should be restricted based on the purpose of the AUP engagement.
  - Advising the entity on the nature, extent and timing of the procedures, provided the entity and any third parties involved take responsibility for the procedures being appropriate for their purposes.

#### *Performing the Procedures and Reporting on Factual Findings*

15. ISRS 4400 states that the AUP report needs to describe the purpose and the AUP in sufficient detail to enable the reader to understand the nature and the extent of the work performed,<sup>8</sup> and that the objective of an AUP engagement is for the practitioner to carry out procedures to which the practitioner and the entity and any appropriate third parties have agreed and to report on factual findings.<sup>9</sup> **In the Working Group's view, these statements indicate that the procedures in an AUP report should be specified precisely enough to avoid the need for exercising professional**

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<sup>7</sup> IESBA Code, paragraphs 130.1 and 130.2

<sup>8</sup> ISRS 4400, paragraph 17

<sup>9</sup> ISRS 4400, paragraph 4

**judgment in performing them, and that the resulting report is limited to itemizing the factual findings.**

*Discussion of the Role of Professional Judgment in an AUP Engagement in the Revised ISRS 4400*

16. The Working Group believes that including a discussion on the role of professional judgment in the revised ISRS 4400 would help clarify the role of professional judgment when performing an AUP engagement.

*Professional Skepticism*

17. The Working Group notes that the IAASB's Enhancing Audit Quality initiative is exploring the issue of professional skepticism in the context of audit engagements. However, the concept of professional skepticism is not explicitly referenced in ISRS 4400 or any of the IAASB's International Standards other than those addressing audit and assurance engagements. A number of NSSs are dealing with this issue in their national AUP standards, and the IESBA is giving more holistic consideration of the relationship between the concept of professional skepticism and the fundamental principles in the IESBA Code, as well as the concept of independence. The Working Group is actively monitoring these developments, and is not specifically seeking input relating to professional skepticism in relation to AUP engagements at this time.

Q1. *Do you agree with the Working Group's views regarding the role of professional judgment in an AUP engagement? Why or why not?*

Q2. *Should revised ISRS 4400 include requirements relating to professional judgment? Are there any unintended consequences of doing so of which the IAASB should be aware?*

**The Independence of the Professional Accountant**

18. The IESBA Code requires practitioners to be objective, but not necessarily independent, when performing non-assurance engagements such as AUP engagements.<sup>10</sup> Being objective obliges practitioners to not compromise their professional judgment because of bias, conflict of interest or the undue influence of others. Independence goes beyond objectivity, and comprises both independence of mind and independence of appearance:
- Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism; and
  - Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit or assurance team's, integrity, objectivity or professional skepticism has been compromised.<sup>11</sup>

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<sup>10</sup> IESBA Code, paragraph 120.1

<sup>11</sup> IESBA Code, paragraphs 290.6 and 291.5

19. Consistent with the IESBA Code, ISRS 4400 states that “independence is not a requirement for AUP engagements; however, the terms or objectives of an engagement or national standards may require the [practitioner] to comply with the independence requirements of the IESBA Code. Where the practitioner is not independent, a statement to that effect would be made in the report of factual findings.”<sup>12</sup>
20. Outreach to date indicates that stakeholders have conflicting views as to whether practitioners should be required to be independent when performing AUP and other non-assurance engagements. Consistent with the IESBA Code, the IAASB has retained the principle that practitioners do not need to be independent when performing a compilation engagement in accordance with ISRS 4410 (Revised).<sup>13</sup>
21. Outreach indicated that practitioner independence is viewed by some stakeholders as adding value to an AUP engagement. For example, the European Commission’s Horizon 2020 program<sup>14</sup>, which uses AUP reports as the primary way of reporting, requires the practitioner to comply with the IESBA Code, including the independence requirements, even though independence is not a requirement for AUP engagements under ISRS 4400. Similarly, in recently revising their respective AUP standards, the AUASB and the AICPA decided to require the practitioner to be independent when performing an AUP engagement.
22. Practitioner independence is viewed by other stakeholders as unnecessary in an AUP engagement if no professional judgment is involved in performing the procedures. Many of these stakeholders, particularly SMPs, expressed concern that requiring practitioners to be independent would be unnecessarily restrictive and may limit the use of AUP engagements.
23. Acknowledging the value of independence, while avoiding a requirement that is unnecessarily restrictive, is important. The Working Group’s tentative view is that the existing approach in ISRS 4400 of requiring a statement in the report of factual findings where the practitioner is not independent strikes the right balance. Given the conflicting views expressed during outreach, the Working Group is seeking views on whether or not independence should be required in an AUP engagement.

Q3. *Do you agree with the Working Group’s tentative view in paragraph 23 regarding practitioner independence for AUP engagements? Why or why not?*

## Terminology in Describing Procedures and Reporting Factual Findings in an AUP Report

### *Unclear or Misleading Terminology*

24. Terms used in describing AUP and reporting factual findings need to be accurate and clear. Some terms have technical meanings that differ from their meaning in everyday English. Such terms need to be used appropriately, and in context.

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<sup>12</sup> ISRS 4400, paragraph 7

<sup>13</sup> ISRS 4410 (Revised), *Compilation Engagements*

<sup>14</sup> Horizon 2020 is a framework programme funding research, technological development, and innovation implemented by the European Commission.



25. For example, a procedure requiring the practitioner to “review cost allocations to determine if they are reasonable” would likely require interpretation as to:
- The nature and extent of procedures to be performed. The word “review” may be read as meaning performing a limited assurance engagement on the cost allocation or as simply agreeing the underlying costs to supporting documentation and recalculating the allocation.
  - What constitutes a “reasonable” allocation.
26. Examples of what might constitute unclear or misleading terminology have been issued by a number of professional bodies and NSS. For example, the Institute of Chartered Accountants in England and Wales’ (ICAEW) Technical Release Tech 10/12 AAF, *Reporting to Third Parties*, describes types of wording or opinions that are unacceptable for professional accountants to use when providing special reports. Similarly, the AICPA’s Attestation Standard (AT-C) Section 215, *Agreed-Upon Procedures Engagements*, includes a list of words that may, depending on the circumstances of the engagement, be considered unclear or misleading.

*Prohibit Use of Unclear or Misleading Terminology*

27. As previously noted, ISRS 4400 requires the AUP to be described in sufficient detail to enable the reader to understand the nature and the extent of the work performed. At the same time, the Working Group acknowledges that, in some cases, law or regulation may prescribe procedures or report wording using unclear terms in an AUP engagement or terms that may not be appropriate in the context of an AUP engagement.
28. To avoid potential misunderstanding while allowing sufficient flexibility to meet legal or regulatory requirements, the Working Group sees merit in:
- Prohibiting the use of unclear or misleading terminology in general, unless required by law or regulation;
  - Where unclear or misleading terminology is required by law or regulation, requiring practitioners to consider discussing with the engaging party and the user whether:
    - It is possible to define the required terms with reference to the required procedures in the AUP report so that they are no longer unclear or misleading; or
    - An assurance engagement (as opposed to an AUP engagement) would be more appropriate.
29. Further, the Working Group is of the view that guidance on what constitutes unclear or misleading terminology, and terminology that is often used appropriately in practice, should be included in the revised ISRS 4400 to assist practitioners in developing wording for AUP and factual findings in an AUP report. Unclear or misleading terminology that the practitioner should avoid include, for example:
- Terms such as “we certify” or “we have ensured” with regard to the factual findings. However, professional accountants might “certify” that they have performed specified agreed-upon procedures even though they cannot “certify” or “ensure” the results.
  - Terms such as “present fairly” or “true and fair,” “audit” and “review,” “assurance” and “conclusion,” which are associated with the provision of assurance under the IAASB’s International Standards.

- Open-ended phrases such as “we obtained all the explanations and performed such procedures as we considered necessary.”
  - The term “material,” unless it is defined quantitatively.
30. Terms that are often used appropriately in practice to describe AUP include, “calculate,” “compare,” “check the clerical accuracy of,” “re-compute” or “obtain confirmation from.” However, it is important to recognize that these terms can be used in an unclear or misleading manner, depending on context, or the absence thereof.

*Q4. Do you agree with the WG’s views regarding a prohibition on unclear and misleading terminology and guidance on such terminology? Why or why not?*

### **AUP Engagements on Non-Financial Information**

31. AUP engagements are increasingly performed on non-financial information. For example, funders often request AUP engagements on internal controls in addition to an audit of the financial statements. **Appendix A** provides a number of other examples of AUP engagements performed on financial and non-financial information.
32. ISRS 4400 is limited to AUP engagements on financial information. However, ISRS 4400 also states that ISRS 4400 “may provide useful guidance for engagements regarding non-financial information, provided the [practitioner] has adequate knowledge of the subject matter in question and reasonable criteria exist on which to base findings.”<sup>15</sup>
33. Expanding the scope of ISRS 4400 to include non-financial information would address market demand for such engagements. However, there is a risk that the practitioner may not have the competence to take on such engagements. This issue could be addressed by including preconditions in the standard for accepting an AUP engagement on non-financial information. For example, the standard could require that, when a practitioner is deciding whether to accept an AUP engagement dealing with non-financial information, the practitioner should:
- Have sufficient competence in the subject matter area to accept responsibility for the engagement; and
  - Be satisfied that the engagement team collectively has appropriate competence to perform the engagement.

*Q5. What are your views regarding broadening the scope of ISRS 4400, including developing pre-conditions relating to competence to undertake an AUP engagement relating to non-financial information?*

*Q6. Are there any other matters that should be considered if the scope is broadened to include non-financial information?*

### **Using the Work of an Expert**

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<sup>15</sup> ISRS 4400, paragraph 2

34. ISRS 4400 does not deal with the use of an expert. A practitioner's expert is an individual or organization possessing expertise in a field other than the practitioner's field of expertise, whose work in that field can be used by the practitioner to assist the practitioner in performing procedures in an engagement. An expert is often used in areas where there is significant technical knowledge involved.<sup>16</sup>
35. Stakeholders indicated that, in some AUP engagements, practitioners may use the work of an expert. As previously discussed, the WG's view is that performance of procedures in an AUP engagement and the reporting of factual findings should not involve professional judgment beyond that which is necessary to demonstrate professional competence and due care. The expert assists the practitioner by applying his or her technical knowledge in performing the procedures without exercising professional judgment. This is likely to be most relevant when the AUP engagement deals with non-financial information (also as discussed above). For example, an AUP engagement may involve the use of the work of an engineer or lawyer in dealing with engineering or legal aspects of a contract, or a procurement officer to check whether acquisitions meet procurement guidelines.
36. If the involvement of an expert is needed, the Working Group is of the view that, before accepting the engagement, the practitioner should, consistent with exercising professional competence and due care:
- Evaluate the expert's objectivity and technical competence; and
  - Reach agreement with the entity on the procedures to be performed by the expert. The procedures to be performed should be specified precisely enough to avoid the need for the expert to exercise professional judgment when performing the procedures.
37. Further, consistent with the premise that procedures and findings should be sufficiently precise, the Working Group is of the view that the practitioner should, before the completion of the engagement:
- Determine whether the nature, timing and extent of procedures performed by the expert agrees with the procedures agreed in the terms of engagement; and
  - Determine whether the factual findings reported by the expert adequately describe the result of the procedures performed.

*Q7. Do you agree with the Working Group's views regarding the use of experts in AUP engagements? Why or why not?*

### **Format of the AUP Report**

38. Stakeholders suggested that the illustrative example of practitioner findings in Appendix 2 of ISRS 4400 could be improved and pointed to the IAASB's auditor reporting initiative as a good illustration of innovative thinking to improve communications. The illustrative AUP report in ISRS 4400 lists four procedures followed by four corresponding findings.
39. While a "short-form" AUP report such as the illustrative report in Appendix 2 of ISRS 4400 may work well when there are relatively few procedures, the Working Group's view is that an illustrative report

<sup>16</sup> Based on the definition of an auditor's expert from International Standard on Auditing (ISA) 620, *Using the Work of an Auditor's Expert*, paragraph 6(a), adapted in the context of an AUP engagement.

that presents the procedures and corresponding findings in a tabular format, or one that presents each procedure and corresponding finding together, will likely facilitate better communication, particularly for engagements involving many procedures.

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

*We would be particularly interested in receiving Illustrative reports that you believe communicate factual findings well.*

#### **AUP Report Restrictions – To Whom the AUP Report Should Be Restricted**

40. 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.<sup>17</sup>
41. Outreach identified a need to clarify 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 AUP engagement letter. Such an interpretation is problematic as the AUP report is often required to be provided to other parties, such as a regulator who may not be a party to the terms of the engagement, or posted online as required by law or regulation.
42. The Working Group does not believe that this interpretation reflects the intention of ISRS 4400. In particular, the Working Group notes that ISRS 4400:
- Requires the practitioner to "ensure with representatives of the entity and, ordinarily, **other specified parties who will receive copies of the report** of factual findings, that there is a clear understanding regarding the agreed procedures and the conditions of the engagement;"<sup>18</sup> and
  - Acknowledges that, in certain circumstances, the **practitioner may not be able to discuss the procedures with all the parties who will receive the report**. In such cases, the practitioner may consider, for example, discussing the procedures to be applied with appropriate representatives of the parties involved, reviewing relevant correspondence from such parties or sending them a draft of the type of report that will be issued.<sup>19</sup>
43. AUP reports are regularly provided to a party (such as a regulator or funder) even though they are not signatories to the engagement agreement. In the Working Group's view, this practice is appropriate as long as such parties have a clear understanding of the AUP and the conditions of the engagement. The practitioner may be satisfied that such an understanding exists if, for example, the procedures to be performed in the AUP engagement are:
- Set out in law or regulation; or

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<sup>17</sup> ISRS 4400, paragraph 6

<sup>18</sup> ISRS 4400, paragraph 9

<sup>19</sup> ISRS 4400, paragraph 10

- Described in a document such as a “Terms of Reference” setting out the terms and conditions of the AUP engagement.

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

#### **AUP Report Restrictions – Three Possible Approaches to Restricting the AUP Report**

44. As discussed in paragraph 40, ISRS 4400 requires that the practitioner’s report of factual findings to include a statement that the report is restricted... ISRS 4400 does not specify how the report is to be restricted to parties agreeing to the procedures.
45. The reason for restricting the AUP report in this manner is to prevent readers who are unaware of the context for the AUP from misinterpreting the results of those procedures. However, a number of stakeholders have indicated that restrictions on the distribution of the report is problematic as the AUP report may be required to be provided to other parties, or posted online, by law or regulation.
46. Three possible approaches to address the needs of those agreeing the procedures while mitigating the risks of misinterpretation of the AUP report by others were considered by the Working Group.
- (a) The first approach would be to require the practitioner to agree with the entity:
- The specified parties who will receive the AUP report; and
  - That the entity will restrict the distribution of the AUP report to those specified parties.
- The practitioner would not accept the AUP engagement unless such an agreement is reached. In addition, the AUP report would include a statement to the effect that the AUP report is restricted to the specific users and is not to be used for any other purposes.
- (b) The second approach would neither require nor preclude the practitioner from including restrictions on the AUP report. Restriction on the AUP report, if any, would be dealt with by agreement between the entity and the practitioner.
- (c) The third approach would require the AUP report to include a statement to the effect that the report is intended solely for the specific users and may not be suitable for any other purposes. This would be subject to law or regulation of the relevant jurisdiction. The approach is similar to how ISA 800<sup>20</sup> alerts readers that the financial statements are prepared in accordance with a special purpose framework.
47. The three approaches represent a trade-off between two objectives – (i) mitigating the risk of those who have not agreed the procedures misinterpreting the AUP report and (ii) allowing more flexibility to meet the needs of those who have. The first approach addresses the former objective but not the latter, while the second approach addresses the latter but not the former. In the Working Group’s view, the third approach, which includes a statement to the effect that the AUP report is intended solely for the specific users and may not be suitable for any other purposes, achieves an appropriate

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<sup>20</sup> ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

balance between addressing the concern regarding unintended parties misinterpreting findings while allowing the AUP report to be made more widely available.

*Q10. Of the three approaches described in paragraph 46, in your view, which approach is the most appropriate? Please explain.*

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

### **Recommendations Made in Conjunction with AUP Engagements**

48. ISRS 4400 does not currently contemplate the provision of recommendations in conjunction with AUP engagements. The Working Group's outreach highlighted that some regulators request practitioners to make recommendations either as part of, or in addition to, AUP engagements. For example, regulators may request recommendations on improving controls relating to deficiencies reported in the factual findings.
49. Recommendations provided by the practitioner on matters noted during an AUP engagement may be viewed as:
- A by-product of the AUP engagement similar in nature to "management letters" provided as part of a financial statements audit; or
  - A multi-scope engagement (as discussed in the section below) consisting of an AUP engagement and a separate service involving the provision of recommendations arising from the AUP engagement.
50. In either case, the Working Group is of the view that recommendations should be clearly distinguished from the AUP engagement and report. For example, the recommendations could be:
- Provided in a separate document from the AUP report; or
  - If the recommendations are required to be included in the AUP report, they should be included in a separate section that is clearly differentiated from the procedures and factual findings.

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

*Q13. Are there any other areas in ISRS 4400 that need to be improved to clarify the value and limitations of an AUP engagement? If so, please specify the area(s) and your views as to how it can be improved.*

### **III: Multi-scope Engagements**

*What are Multi-scope Engagements?*

51. Changes in the business and regulatory environment include growth in regulation calling for increased accountability on how funds and grants are used, as well as increases in audit exemption thresholds in many jurisdictions. These changes have prompted stakeholders to look for alternatives to audits to assist them in exercising their oversight responsibilities. The Working Group found that

this has resulted in increased demand not only for AUP engagements, but also for what were referred to in the IAASB's Work Plan as "hybrid" engagements.

52. Outreach to understand the types of "hybrid" (or multi-scope) engagements led to the conclusion that the term "hybrid" engagements may be used to refer to many different types of engagements such as:

- Engagements mandated by regulators that the regulator describes as an AUP engagement, in which the required reporting involves terms that purport to provide assurance, despite the fact that the procedures specified do not amount to an assurance engagement. Stakeholders indicated that regulators and providers of grant funding or other capital, among others, sometimes misunderstand the distinction between the different types of the IAASB's pronouncements and their purpose, and dismiss the significant differences between these pronouncements as mere nuance. They ask practitioners to "certify" or "verify" that an entity has complied with requirements or agreements, and attempt to specify the procedures to be performed in support of the certification or verification. In many cases, the procedures relate to whether a funding recipient has used the funds solely for designated purposes. Individual practitioners, NSS and professional accounting bodies in receipt of such requests have, in many cases, successfully intervened to explain the different nature of assurance and related services engagements, in particular the underlying approach to evidence, the expected work effort and the form of reporting.
- Engagements that consist of an AUP engagement combined with another engagement, such as an assurance engagement, which clearly distinguish between the various elements and are therefore better described as "multi-scope" engagements. Stakeholders indicated that user needs were often best satisfied by multi-scope engagements.

Outreach also indicated that there are many more examples of the latter category than the former. The remainder of this Discussion Paper therefore focuses on the latter category: multi-scope engagements.

53. An example of a multi-scope engagement identified by the Working Group is a reporting package required of auditors of investment brokers and dealers in Canada. The reporting package consists of distinct reports: auditor's reports on certain financial information, and AUP reports on insurance, segregation of securities, and guarantee/guarantor relationships relied upon to reduce margin requirements during the year.
54. In the Working Group's view, the key characteristic of multi-scope engagements is that the various elements of the engagement comply with the corresponding IAASB pronouncements. For example, if an AUP engagement is combined with an audit, review, other assurance or compilation engagement, each element would comply with the respective IAASB standard.

*Prioritizing the IAASB's Work between ISRE 4400 and Multi-Scope Engagements*

55. Resource constraints require prioritization of work. Responses to the IAASB's Work Plan and the Working Group's outreach indicate significant interest in addressing both AUP engagements (as discussed in **Section II**) and multi-scope engagements.
56. The Working Group discussed whether requirements related to multi-scope engagements should be included as part of the revision of ISRS 4400. In the Working Group's view, any work to address

multi-scope engagements needs to be separated from the project to revise ISRS 4400 because the scope of multi-scope engagements extends beyond ISRS 4400 into other IAASB pronouncements.

57. To assist practitioners in conducting a multi-scope engagement, some NSS and professional accounting bodies have developed guidance, for example:
- (a) *Guidance Statement 022 - Grant Acquittals and Multi-Scope Engagements*, issued by the AUASB.
  - (b) Illustrative reports issued by the Independent Regulatory Board of Auditors in South Africa that separated the requirements of the Banks Act regulatory form into their constituent engagement components that each comply with each corresponding IAASB pronouncement.

In the Working Group's view, the approach of developing non-authoritative guidance could be an efficient means of addressing multi-scope engagements if doing so is considered necessary.

58. Addressing AUP engagement issues and then addressing multi-scope engagements may be the most efficient use of the Board's resources. For example, clarifying what an AUP engagement entails—in particular, the use of professional judgment—could help to better distinguish an AUP engagements from multi-scope engagements.
59. However, some stakeholders might welcome clarity in the near-term by the IAASB addressing multi-scope engagements first through the development of non-authoritative guidance. The potential downside includes a delay of the ISRS 4400 revision project and any non-authoritative guidance becoming outdated within a short period of time, as new requirements in a revised ISRS 4400 might require revisions to the guidance.
60. In the Working Group's view, an update of ISRS 4400 is necessary as a priority and needs to be addressed before potentially developing guidance on multi-scope engagements.

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

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

*Please provide suggestions regarding the nature of guidance on multi-scope engagements you think would be helpful and any examples of multi-scope engagements of which you are aware.*

#### **IV. What Happens Next?**

61. Your input will help the IAASB decide on the next steps. The responses to this paper will be considered by the IAASB in 2017, including further discussion on an appropriate way forward for revising ISRS 4400 and any other actions that may be necessary.

#### **Questions for the Discussion Paper**

The following questions for respondents relate to the matters set out in this Discussion Paper, and also appear following the relevant discussion in this document. The Working Group welcome responses to



any or all of these questions. Responses will be most helpful when they clearly indicate to which question the response relates and articulate respondents' rationale for their views.

#### **The Role of Professional Judgment and Professional Skepticism in an AUP Engagement**

- Q1. *Do you agree with the Working Group's views regarding the role of professional judgment in an AUP engagement? Why or why not?*
- Q2. *Should revised ISRS 4400 include requirements relating to professional judgment? Are there any unintended consequences of doing so of which the IAASB should be aware?*

#### **The Independence of the Professional Accountant**

- Q3. *Do you agree with the Working Group's tentative view in paragraph 23 regarding practitioner independence for AUP engagements? Why or why not?*

#### **Terminology in Describing Procedures and Reporting Factual Findings in an AUP Report**

- Q4. *Do you agree with the WG's views regarding a prohibition on unclear and misleading terminology and guidance on such terminology? Why or why not?*

#### **AUP Engagements on Non-Financial Information**

- Q5. *What are your views regarding broadening the scope of ISRS 4400, including developing pre-conditions relating to competence to undertake an AUP engagement relating to non-financial information?*
- Q6. *Are there any other matters that should be considered if the scope is broadened to include non-financial information?*

#### **Using the Work of an Expert**

- Q7. *Do you agree with the Working Group's views regarding the use of experts in AUP engagements? Why or why not?*

#### **Format of the AUP Report**

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

*We would be particularly interested in receiving illustrative reports that you believe communicate factual findings well.*

#### **AUP Report Restrictions – To Whom the AUP Report Should be Restricted**

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

#### **AUP Report Restrictions – Three Possible Approaches to Restricting the AUP Report**

- Q10. *Of the three approaches described in paragraph 46, in your view, which approach is the most appropriate? Please explain.*
- Q11. *Are there any other approaches that the Working Group should consider?*

**Recommendations Made in Conjunction with AUP Engagements**

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

**Other Issues relating to ISRS 4400**

*Q13. Are there any other areas in ISRS 4400 that need to be improved to clarify the value and limitations of an AUP engagement? If so, please specify the area(s) and your views as to how it can be improved.*

**Multi-Scope Engagements**

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

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

*Please provide suggestions regarding the nature of guidance on multi-scope engagements you think would be helpful and any examples of multi-scope engagements of which you are aware.*

## Appendix A

### Examples of AUP Engagements

<b>AUP Engagements on Financial Information</b>	<b>AUP Engagements on Non-Financial Information</b>
Report on eligibility of expenditures claimed from a funding program	Report on the operation of internal controls over financial reporting
Report on revenues (e.g., for determining royalties, rent, franchise fees based on a % of revenues)	Report on compliance with “green packaging” requirements
Reconciliation between different financial reporting frameworks	Report on number of passengers to a civil aviation authority
Report on compliance with bank covenants	Report on greenhouse gas emissions
Report on capital adequacy ratio for regulatory authorities	Report on Observation of destruction of fake or defective goods
Calculations of financial ratios of projected cash flows for reporting to tax authorities	Report on data generating processes for national lottery draws