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*IAASB Agreed-Upon Procedures Working Group*

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

## About the IAASB

This document has been prepared by the IAASB's Agreed Upon Procedures (AUP) Working Group (the Working Group). It does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override the International Standards issued by the IAASB.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group (CAG), which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

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# EXPLORING THE DEMAND FOR AGREED-UPON PROCEDURES ENGAGEMENTS AND OTHER SERVICES, AND THE IMPLICATIONS FOR THE IAASB'S INTERNATIONAL STANDARDS

## CONTENTS

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	Page
The IAASB's Agreed-Upon Procedures Working Group and the Purpose of this Publication	4
What is an Agreed-Upon Procedures Engagement? .....	5
I. Introduction .....	7
Who Uses an AUP Report? Why Are AUP Engagements Performed and What Are Its Benefits? .....	7
Why Is the IAASB Undertaking Work on AUP Engagements? .....	7
II. Updating and Enhancing ISRS 4400 .....	9
The Role of Professional Judgment and Professional Skepticism in an AUP Engagement	9
The Independence of the Professional Accountant .....	11
Terminology in Describing Procedures and Reporting Factual Findings in an AUP Report	13
AUP Engagements on Non-Financial Information .....	14
Using the Work of an Expert .....	15
Format of the AUP Report .....	16
AUP Report Restrictions .....	16
Recommendations Made in Conjunction with AUP Engagements .....	18
III. Multi-scope Engagements .....	19
What are Multi-scope Engagements? .....	19
Prioritizing the IAASB's Work between ISRS 4400 and Multi-Scope Engagements	20
IV. What Happens Next? .....	21
Overview of Questions for Stakeholder Input .....	22
Appendix A .....	24
Examples of Subject Matter Information on which AUP Engagements May be Performed	24

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## The IAASB's Agreed-Upon Procedures Working Group and the Purpose of this Publication

This publication has been prepared by the IAASB's AUP Working Group. 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.

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>
- Highlight the results of the research and outreach performed to date by the Working Group; 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 any other activities that may be necessary.

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 undertaking an AUP engagement and producing an AUP report<sup>2</sup> 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**).

AUP engagements are frequently used by regulators, funding bodies, creditors and other users. Not-for-profit organizations such as charitable organizations and other entities often engage Small and Medium Practices (SMP) to perform AUP engagements. As the demand for AUP engagements continues to grow, stakeholder views will be helpful to the IAASB in determining what is needed to meet stakeholders' needs, including standard-setting and other possible actions. Questions have been included throughout this document, but are listed in full on pages 22–23.

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

<sup>2</sup> When using the term 'AUP report' in this Discussion Paper the Working Group refers to a report on factual findings.

## What is an Agreed-Upon Procedures Engagement?

ISRS 4400 establishes requirements and provides guidance for performing an AUP engagement. 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 based on the procedures performed. In conducting an AUP engagement in accordance with ISRS 4400, the practitioner does not express an opinion. Users of the AUP report assess for themselves the factual findings based on the procedures performed and draw their own conclusions. Appendix A provides some examples of subject matter information on which AUP engagements may be performed.

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	Compilation	Review	Audit
Standards			
ISRS 4400	ISRS 4410 (Revised), <i>Engagements to Compile Financial Information</i>	International Standards on Review Engagements (or ISREs)	International Standards on Auditing (or ISAs)
Assurance			
None	None	Limited	Reasonable
Work Effort			
AUP, as the basis for the report on factual findings	Assisting management with the preparation and presentation of financial information	Primarily inquiry and analytical procedures	Risk assessment and audit procedures that respond to the identified risks of material misstatement
Report			
Report on factual findings	Report communicating the nature of the compilation engagement and the practitioner's role and responsibilities	Conclusion	Opinion

The publication, [\*Choosing the Right Service: Comparing Audit, Review, Compilation, and Agreed-Upon Procedure Services\*](#), published by IFAC's SMP Committee, may be useful in understanding the range of audit, review, compilation, and AUP services that small- and medium-sized practices can provide to meet the needs of their clients.

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## I. Introduction

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

1. A wide range of stakeholders use AUP reports for a variety of reasons. For example, regulators, funding bodies, creditors and others 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.
2. 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 stakeholders in 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.
3. 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 objectivity, professional competence and due care.<sup>3</sup>

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

4. 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 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 to have specific procedures performed. It was also noted that the standard needs to be updated to the Clarity format.<sup>4</sup> This project was postponed to the *Work Plan for 2015–2016* (the Work Plan)<sup>5</sup> due to the prioritization of the IAASB's Auditor Reporting project.
5. In the intervening period, a number of jurisdictions, national 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 Royal Netherlands Institute of Chartered Accountants have undertaken work to explore how AUP engagements can be enhanced in light of the increasing demand.

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<sup>3</sup> The IAASB's Integrated Reporting Working Group is exploring the concept of credibility and trust in its Discussion Paper, [\*Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements\*](#). The Integrated Reporting Working Group's Discussion Paper may be of interest to some readers.

<sup>4</sup> To revise ISRS 4400 in the Clarity format would broadly comprise the following:

- Identifying the practitioner's overall objectives when conducting an AUP engagement in accordance with ISRS 4400, and clarifying the practitioner's obligations in relation to those objectives;
- Clarifying the obligations on practitioners by separating the requirements from application and other explanatory material, and rearticulating some of the language used to communicate such requirements; and
- Improving the overall readability and understandability of ISRS 4400 through structural and drafting improvements.

<sup>5</sup> <http://www.ifac.org/system/files/publications/files/IAASB-Work-Plan-2015-2016.pdf>

6. In its Work Plan, 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 Working Group to consider 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 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 IFAC's SMP Committee; and**
- **Other organizations subject to regulatory oversight, such as the Organisation for Economic Co-operation and Development.**

**The 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, June 2016, and September 2016 meetings as well as the IAASB CAG September 2015 and March 2016 meetings.<sup>6</sup>**

**Relevant national developments have also been considered as part of the Working Group's information gathering activities, including the use of AUP engagements, 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>6</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. Updating and Enhancing ISRS 4400

7. 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.
8. Possible modifications to the requirements of ISRS 4400 identified by stakeholders in outreach 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 area is discussed in more detail below.

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

#### *Professional Judgment*

9. 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>7</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.
10. 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

11. ISRS 4400 requires the practitioner to comply with the International Ethics Standards Board for Accountants' (IESBA), *Code of Ethics for Professional Accountants* (IESBA Code).<sup>8</sup> The IESBA Code requires a practitioner to exercise professional competence and due care when performing a "non-

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<sup>7</sup> *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*, paragraph 17

<sup>8</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>9</sup>
12. 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

13. 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>10</sup> ISRS 4400 also states 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>11</sup> In the Working Group's view, these statements indicate that the nature of the procedures in an AUP engagement is such that the procedures would result in objectively verifiable factual findings (and not subjective opinions or conclusions). Although the procedures are specified

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<sup>9</sup> IESBA Code, paragraphs 130.1 and 130.2

<sup>10</sup> ISRS 4400, paragraph 17

<sup>11</sup> ISRS 4400, paragraph 4

precisely, the practitioner does not suspend professional judgment and professional skepticism when performing an AUP engagement. For example, if the practitioner becomes aware of issues such as those discussed in paragraph 12 above while performing the procedures, the practitioner would exercise professional judgment in determining appropriate actions to take.

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

14. The Working Group believes that a discussion in the introductory section of the revised AUP standard that the role of professional judgment in an AUP engagement is in the context of professional competence and due care may help clarify the actions of the practitioner when performing an AUP engagement. However, some stakeholders may see merit in requiring the practitioner to exercise professional judgment in conducting an AUP engagement, similar to the approach taken in ISRS 4410.<sup>12</sup>

#### *Professional Skepticism*

15. 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. 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 NSS are dealing with this issue in their national AUP standards, and the IESBA is giving more holistic consideration of the relationship between the concept in 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 will further assess the impact of these developments in revising ISRS 4400.

- Q1. *Results from the Working Group's outreach indicate that many stakeholders are of the view that professional judgment has a role in an AUP engagement, particularly in the context of performing the AUP engagement with professional competence and due care. However, the procedures in an AUP engagement should result in objectively verifiable factual findings and not subjective opinions or conclusions. Is this consistent with your views on the role of professional judgment in an AUP engagement? If not, what are your views on the role of professional judgment in an AUP engagement?*
- Q2. *Should revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?*

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

16. The IESBA Code requires practitioners to be objective, but not independent, when performing non-assurance engagements such as AUP engagements.<sup>13</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:

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<sup>12</sup> ISRS 4410 (Revised), *Compilation Engagements*, paragraph 22 states that 'The practitioner shall exercise professional judgment in conducting a compilation engagement.'

<sup>13</sup> IESBA Code, paragraph 120.1

- 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>14</sup>

As an AUP engagement is not considered a “prohibited service” under the IESBA Code, performing an AUP engagement may not always preclude the practitioner from also performing an assurance engagement since performing an AUP engagement does not impair the practitioner's independence.

17. 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>15</sup>
18. 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>16</sup>
19. Some stakeholders view independence as adding value to an AUP engagement. For example, the European Commission's Horizon 2020 program,<sup>17</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.<sup>18</sup>
20. Practitioner independence is viewed by other stakeholders as unnecessary in an AUP engagement if the AUP report is restricted to specific users and 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.

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<sup>14</sup> IESBA Code, paragraphs 290.6 and 291.5

<sup>15</sup> ISRS 4400, paragraph 7

<sup>16</sup> ISRS 4410 (Revised), paragraph A21

<sup>17</sup> Horizon 2020 is a programme funding research, technological development, and innovation implemented by the European Commission.

<sup>18</sup> The AICPA's Statement on Standards for Attestation Engagements 215, *Agreed-Upon Procedures Engagements*, requires the practitioner to be independent. However, the standard contemplates circumstances when the practitioner is not independent but is required by law or regulation to accept the AUP engagement. The AUASB's Australian Standard on Related Services 4400, *Agreed-Upon Procedures Engagements to Report on Factual Findings*, requires the practitioner to be independent unless the engaging party has explicitly agreed to modified independence requirements in the terms of engagement.

21. Acknowledging the value of independence, while avoiding a requirement that is unnecessarily restrictive, is important. The Working Group's current position 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. What are your views regarding practitioner independence for AUP engagements? Would your views change if the AUP report is restricted to specific users?*

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

### *Unclear or Misleading Terminology*

22. Terms used in describing AUP and reporting on factual findings need to be accurate and clear. Some terms have technical meanings that may vary from their everyday meaning. Such terms need to be used appropriately, and in context. For example, when a technical term with a meaning that differs from its everyday meaning is used in an appropriate context and all users of the AUP report and the practitioner understand the technical term and the context, the technical term may not be misleading. Similarly, all users of an AUP report and the practitioner may agree that a term to be used in an AUP report has a specific meaning in the context of the AUP engagement. It is important for the practitioner to clearly document the meaning of the term and consider whether there is a need to clarify the meaning of the term in the AUP report.
23. 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.
24. 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' Technical Release, [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 215, [Agreed-Upon Procedures Engagements](#), includes a list of words that may, depending on the circumstances of the engagement, be considered unclear or misleading.

### *Prohibiting Use of Unclear or Misleading Terminology*

25. 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 or terms that may not be appropriate in the context of an AUP engagement.
26. 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; and

- 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.
27. 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 AUP 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.”<sup>19</sup>
28. Terms that are often used appropriately in practice to describe AUP include, “calculate,” “compare,” “check the mathematical accuracy of,” “re-compute” or “obtain confirmation from.” However, it is important to recognize that these terms, among others can be used in an unclear or misleading manner, depending on context, or the absence thereof.

*Q4. What are your views regarding a prohibition on unclear or misleading terminology with related guidance about what unclear or misleading terminology means? Would your views change if the AUP report is restricted to specific users?*

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

29. 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 subject matter information on which AUP engagements may be performed.
30. ISRS 4400 is directed toward engagements regarding financial information. However, it 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>20</sup>

<sup>19</sup> However, quantitative thresholds for determining factual deviations may be set.

<sup>20</sup> ISRS 4400, paragraph 2

31. Clarifying that the scope of ISRS 4400 includes 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 clarifying that the scope of ISRS 4400 includes non-financial information, and developing pre-conditions relating to competence to undertake an AUP engagement on non-financial information?*

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

### Using the Work of an Expert

32. 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>21</sup>
33. Stakeholders indicated that, in some AUP engagements, practitioners may use the work of an expert. The expert assists the practitioner by applying the expert's technical knowledge in performing the procedures. 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.
34. 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 nature, extent and timing of the procedures to be performed by the expert. The procedures to be performed should result in objectively verifiable factual findings and be specified precisely enough to avoid the need for the expert to exercise professional judgment when performing the procedures.

As previously discussed, the Working Group'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.

<sup>21</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.

35. 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 is consistent 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 that ISRS 4400 should be enhanced, as explained above, for the use of experts in AUP engagements? Why or why not?*

### Format of the AUP Report

36. 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.
37. 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 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*

38. 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>22</sup>
39. Outreach identified a need to clarify whom the "parties that have agreed to the procedures to be performed." A narrow interpretation is that the AUP report is restricted to signatories to the AUP engagement letter. Such an interpretation may be 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.
40. 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

<sup>22</sup> ISRS 4400, paragraph 6



clear understanding regarding the agreed procedures and the conditions of the engagement;<sup>23</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>24</sup>

41. 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
- Described in a document setting out the terms and conditions of the AUP engagement, such as a "Terms of Reference."

*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?*

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

42. As discussed in paragraph 38, ISRS 4400 requires that the practitioner's report on factual findings 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.
43. 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 (as discussed in paragraph 39).
44. Three possible approaches to address the needs of those agreeing to 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 or is required by law or regulation to undertake the AUP engagement. 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.

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<sup>23</sup> ISRS 4400, paragraph 9

<sup>24</sup> ISRS 4400, paragraph 10

- (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 voluntary agreement between the entity and the practitioner as opposed to being mandated in the standard.
- (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 (Revised)<sup>25</sup> alerts readers that the financial statements are prepared in accordance with a special purpose framework. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the AUP report.
45. The three approaches represent a trade-off between two objectives – (i) mitigating the risk of those who have not agreed to the procedures from misinterpreting the AUP report, and (ii) allowing more flexibility to meet legal or regulatory requirements for the AUP report to be provided to other parties or posted online. The first approach in paragraph 44(a) above 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 achieves an appropriate balance between addressing the concern regarding unintended parties misinterpreting findings while allowing the AUP report to be made more widely available.

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

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

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

46. ISRS 4400 does not currently contemplate the provision of recommendations when performing 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 report on factual findings.
47. 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 Section III below) consisting of an AUP engagement and a separate service involving the provision of recommendations arising from the AUP engagement.

<sup>25</sup> ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph A21

48. In either case, the Working Group is of the view that recommendations should be clearly distinguished from the AUP 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?

49. 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 alternative services 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 engagements that were referred to in the IAASB's Work Plan as "hybrid" engagements.
50. Outreach to understand the types of hybrid (or multi-scope) engagements being requested in practice 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 are described as AUP engagements, 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 IAASB's pronouncements and their purpose, and dismiss the significant differences between these pronouncements as mere nuance. They request 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. In receipt of such requests, practitioners, NSS and professional accounting bodies 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 combine reasonable assurance engagements, limited assurance engagements and non-assurance engagements, such as AUP engagements, 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 more examples of the latter category than the former. The remainder of this Discussion Paper therefore focuses on the latter category: multi-scope engagements.

51. An example of a multi-scope engagement identified by the Working Group is a reporting package required by the regulator, in respect 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.
52. In the Working Group's view, the key characteristic of a multi-scope engagement 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 ISRS 4400 and Multi-Scope Engagements**

53. The IAASB prioritizes its work based on the needs of its stakeholders. 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.
54. 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. Accordingly, 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 engagement from a multi-scope engagement. Non-authoritative guidance could then be developed as an efficient means of addressing multi-scope engagements if doing so is considered necessary.
55. 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.
56. 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.

57. 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, and how should this be done? For example, would non-authoritative guidance be useful in light of the emerging use of these types of engagements?*

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

*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 will be welcome and will help to inform further deliberations.*

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

58. Your input will inform the IAASB's deliberations and assist 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.

## **Overview of Questions for Stakeholder Input**

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. *Results from the Working Group's outreach indicate that many stakeholders are of the view that professional judgment has a role in an AUP engagement, particularly in the context of performing the AUP engagement with professional competence and due care. However, the procedures in an AUP engagement should result in objectively verifiable factual findings and not subjective opinions or conclusions. Is this consistent with your views on the role of professional judgment in an AUP engagement? If not, what are your views on the role of professional judgment in an AUP engagement?*
- Q2. *Should revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?*

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

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

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

- Q4. *What are your views regarding a prohibition on unclear or misleading terminology with related guidance about what unclear or misleading terminology mean? Would your views change if the AUP report is restricted?*

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

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

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

- Q7. *Do you agree with the Working Group's views that ISRS 4400 should be enhanced, as explained above, for the use of experts in AUP engagements? Why or why not?*

### **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. In your view, which of the three approaches described in paragraph 44 is the most appropriate (and which ones are not 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, and how should this be done? For example, would non-authoritative guidance be useful in light of the emerging use of these types of engagements?*

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

*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 will be welcome and will help to inform further deliberations.*

The IAASB and the Working Group are interested in views that readers may have on these questions or any others that we have not yet considered in relation to the use of AUP and multi-scope engagements. Please submit written responses through the [IAASB's website](#). Written responses are requested by **March 29, 2017**, to help the IAASB determine the way forward for the AUP project.

## Appendix A

### Examples of Subject Matter Information on which AUP Engagements May be Performed

<b>AUP Engagements Where the Subject Matter Information Is Financial Information</b>	<b>AUP Engagements Where the Subject Matter Information Is 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



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