

29 March 2017

Matthew Waldron
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International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
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Dear Sir,

RESPONSE TO THE INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB) DISCUSSION PAPER (DP) – EXPLORING THE DEMAND FOR AGREED-UPON PROCEDURES (AUP) ENGAGEMENTS AND OTHER SERVICES, AND THE IMPLICATIONS FOR THE IAASB’S INTERNATIONAL STANDARDS

The Institute of Singapore Chartered Accountants (ISCA) appreciates the opportunity to comment on the above DP issued by the IAASB in November 2016.

To solicit meaningful feedback for this topic, ISCA undertook the following initiatives to seek views from key stakeholders:

- (i) Conducted a one-month public consultation to seek feedback from its members;
- (ii) Organised a focus group discussion to engage key stakeholders, including practitioners and government agencies, to obtain their views on the areas highlighted in the DP as meriting further exploration and consideration; and
- (iii) Discussed the DP with members of the ISCA Auditing and Assurance Standards Committee.

AUP engagements are commonly used in Singapore by government agencies when requesting some form of verification work to be performed in support of their disbursements of grants. This is because AUP engagements can be tailored to address specific needs, completed in an efficient manner and are more cost effective. Other stakeholders also make use of the AUP framework for a variety of purposes. Examples include reporting on compliance with royalty agreements, reporting on revenue for determining rental payable, and due diligence work for mergers and acquisitions.

In addition, there appears to be demand for multi-scope engagements in Singapore, though they are currently not prevalent. This is perhaps due to a lack of guidance and practitioners would generally perform separate engagements to meet stakeholders' needs. We believe this may be an emerging area, for example, for grants of significant amounts and in the area of due diligence work.

Generally, we share similar views as the IAASB AUP Working Group. We have provided below our comments on selected areas in the DP.

The Role of Professional Judgement and Professional Skepticism in an AUP Engagement

- 1.1 We agree that professional judgement and professional skepticism have a role in an AUP engagement. Professional skepticism is always necessary and relevant. The exercise of professional judgement is essential but limited.
- 1.2 In practice, practitioners already exercise professional judgement in an AUP engagement, although this is not discussed in International Standard on Related Services (ISRS) 4400. At the onset of an AUP engagement, the practitioner, the entity and appropriate third parties discuss and agree the procedures to perform.
- 1.3 At the same time, the practitioner exercises professional judgement to:
 - Understand the objectives of the engagement and the needs of the users;
 - Determine if the AUP framework meets the needs of the users, or if another framework may be more appropriate; and
 - Determine whether the nature, extent and timing of the procedures are appropriate in the context of an AUP engagement and whether they are tailored to address specific needs.

The inclusion of a section discussing the exercise of professional judgement in the revised ISRS 4400 would clarify any doubts over the role of professional judgement and reaffirm its current role in practice.

- 1.4 However, it would be important to stress, in the revised ISRS 4400, the limited application of professional judgement in an AUP engagement. The performance of procedures and the reporting of findings should not involve professional judgement beyond that which is necessary to demonstrate professional competence and due care. As highlighted in the DP, the procedures should result in objectively verifiable factual findings and not subjective opinions or conclusions. Applying professional judgement to the reporting of findings would be akin to providing assurance which is inappropriate.
- 1.5 The role of professional judgement throughout the engagement would have to be clearly articulated in revised ISRS 4400 to provide relevant guidance to practitioners.

The Independence of the Professional Accountant

- 2.1 Our stakeholders have different views as to whether practitioners should be independent when performing AUP engagements.
- 2.2 Some users of AUP reports perceive independence of practitioners as adding value and enhancing credibility to the process and findings while others do not view independence of practitioners as a necessity for an AUP engagement. Representatives of small-and-medium practices also expressed that mandating practitioner independence may be overly restrictive and impractical for them.
- 2.3 In our view, it may not be appropriate to include such an independence requirement in the standard. If required for specific engagements, this can be included in the relevant terms of the engagement letter or mandated in relevant laws or regulations. If required in some jurisdictions, this can be imposed through the respective national standards.
- 2.4 Currently, where the practitioner is not independent, ISRS 4400 requires a statement to that effect to be made in the report of factual findings. Some stakeholders question the purpose of such a disclosure when independence is not mandated in the first place. Users may misinterpret this disclosure as a deviation from the norm and be misled into thinking whether quality or other aspects of the engagement have been compromised. Hence, we suggest that ISRS 4400 should not mandate such a disclosure if independence of the practitioner is not required for an AUP engagement. If the practitioner wishes to emphasise on his independence, the practitioner can choose to voluntarily disclose this fact in the AUP report.

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

- 3.1 Having a set of common and appropriate terminology to be used in AUP reports would help users better understand which terms are widely accepted, clear and appropriate in the context of an AUP engagement, and help minimise misinterpretation of the nature and extent of work performed by the practitioner. Hence, our stakeholders welcome the inclusion of prohibition on unclear or misleading terminology with related guidance on appropriate terminology often used in practice, in the revised ISRS 4400.
- 3.2 Stakeholders believe that the guidance proposed should be sufficiently clear so as to be useful when practitioners develop wordings for procedures and factual findings. The IAASB may wish to consider providing specific guidelines on what is unclear or misleading terminology, in the relevant context, with examples and explanations. There may be wordings which are inappropriate in all circumstances and wordings which may or may not be unclear or misleading, depending on the context. These guidelines, when applied, should be helpful in developing such wordings but not overly restrictive.

Recommendations Made in Conjunction with AUP Engagements

- 4.1 We note that the circumstances may differ in regard to recommendations made in conjunction with AUP engagements. In some cases, recommendations may be relevant to the entity but not to third party users of the report (such as in a one-off engagement). Hence, it may not be relevant to have recommendations in an AUP engagement.
- 4.2 In other situations, some practitioners performing the AUP may also be the statutory auditor of the entity. Recommendations on matters noted during an AUP engagement may already be included in the management letter issued as part of the financial statement audit. Hence, depending on the circumstances, practitioners may present recommendations, if applicable, differently. The revised ISRS 4400 should allow the presentation of recommendations in different forms, as long as they are clearly distinguished from the procedures and factual findings.

Multi-Scope Engagements

- 5.1 As highlighted above, multi-scope engagements are currently not prevalent in Singapore. Hence, we agree with the IAASB AUP Working Group's proposed plans to address issues within AUP engagements first before addressing and providing guidance on multi-scope engagements.

Should you require any further clarification, please feel free to contact Mr Kang Wai Geat, Assistant Director, Technical Advisory and Professional Standards, or Ms Fua Qiu Lin, Senior Manager, Technical Advisory and Professional Standards, at ISCA via email at waigeat.kang@isca.org.sg or qiulin.fua@isca.org.sg respectively.

Yours faithfully,



Mr Titus Kuan
Director
Technical Advisory, Professional Standards, and Learning & Development