

15 March 2019

Willie Botha  
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International Auditing and Assurance Standards Board  
529 Fifth Avenue  
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USA

Dear Sir,

**RESPONSE TO THE INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB) EXPOSURE DRAFT (ED) – PROPOSED INTERNATIONAL STANDARD ON RELATED SERVICES (ISRS) 4400 (REVISED), AGREED-UPON PROCEDURES ENGAGEMENTS**

The Institute of Singapore Chartered Accountants (ISCA) appreciates the opportunity to comment on the above ED issued by the IAASB in November 2018.

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 ED; and
- (iii) Discussed the ED with members of the ISCA Auditing and Assurance Standards Committee.

Agreed-upon procedures (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. Others also make use of the AUP framework for a variety of purposes, such as reporting on compliance with royalty agreements, reporting on revenue for determining rental payable, and due diligence work for mergers and acquisitions. Our stakeholders are hence supportive of revising ISRS 4400 such that it remains relevant and useful.

We agree with the overall direction of the proposed revisions. Some of these changes already reflect what is currently being done in practice. For example, professional judgement is exercised in certain aspects of an AUP engagement, although its application is not discussed in the current standard.

ISCA has been engaging government agencies in Singapore in relation to the AUP reports that they require to support grants disbursements. In doing so, ISCA plays a key role in narrowing the expectations gap between the practitioners and the government agencies by reviewing the procedures to assess if they meet the objective of the agencies and whether they are appropriate and in line with the AUP framework.

We believe that this proposed standard, which provides more clarity and guidance, will be very helpful in our engagements with the agencies. An example is the guidance on potentially inappropriate terminology which will be an important reference point when crafting appropriate AUP procedures and minimising misinterpretations of the nature and extent of work performed by the practitioners.

Overall, we believe that the proposed standard has been appropriately clarified and modernised to respond to the needs of stakeholders and address public interest issues. We have provided below our comments to the specific questions in the ED.

### **Specific Questions**

#### *Professional Judgement*

#### **2) Do the definition, requirement and application material on professional judgement in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role professional judgement plays in an AUP engagement?**

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| <p>2.1 We agree with the requirement to apply professional judgement in accepting and conducting an AUP engagement. This reaffirms the current market practice by practitioners.</p> <p>2.2 The definition of “professional judgement” makes reference to “professional standards”, which is not defined in the ED. If “professional standards” refers to the same term as defined in the IAASB’s <i>Glossary of Terms</i> (Glossary), then it would not be appropriate as “professional standards” is defined in the Glossary as “International Standards on Auditing (ISAs) and relevant ethical requirements” (i.e. it is defined in the auditing context). For the purpose of this standard, it will be more relevant for the IAASB to define “professional standards” in the context of ISRS 4400 or use another term.</p> <p>2.3 We agree with the areas identified in paragraph A15 of ED-4400 where professional judgement is commonly applied. We suggest providing more guidance on how the practitioner can address certain situations when the matters highlighted come to the practitioner’s attention. In particular, when the practitioner becomes aware of matters that may indicate fraud or instances of non-compliance or suspected non-compliance</p> |
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with laws or regulations, considering the limited use of professional judgement in an AUP engagement, it should be highlighted that the practitioner is not required to perform procedures to obtain additional information about the fraud or non-compliance.

2.4 Professional judgement is also applied in the following areas which we believe should be included in paragraph A15 as well:

- Deciding whether to accept an AUP engagement; and
- Describing the granularity of findings in the AUP report.

2.5 We also suggest to include in paragraph 4 of ISRS 4400 (Revised), as one of the values of an AUP engagement performed in accordance with the standard, the exercise of professional judgement by the practitioner.

### *Practitioner's Objectivity and Independence*

**3) Do you agree with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)? If not, under what circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the IAASB would discuss the relevant independence considerations with the IESBA?**

3.1 We agree with not including a precondition in ISRS 4400 (Revised) for the practitioner to be independent when performing an AUP engagement. However, as there could be engagements where the engaging party/user would require the practitioner to be independent, it would be useful to have an independence framework for AUP engagements under which the practitioner can assess the practitioner's independence.

3.2 The International Ethics Standards Board for Accountants (IESBA)'s *International Code of Ethics for Professional Accountants* (Code) establishes independence requirements for assurance engagements. However, such similar requirements do not exist for AUP engagements. This poses a challenge to both engaging party/users and practitioners when the practitioner performing the AUP engagement is required to be independent as there is no "standard" to refer to. Hence, it would be useful to have in place an international framework for independence for AUP engagements. Where independence of practitioner is valued and required for a particular AUP engagement, this framework would then form the basis upon which to assess independence. We suggest that the IAASB take this up with the IESBA.

**4) What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the Explanatory Memorandum, and the related requirements and application material in ED-4400? Do you believe that the practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.**

- 4.1 Our stakeholders have different views as to the disclosures required when independence of the practitioner is not a requirement.
- 4.2 Some of them opine that the inclusion of a statement that the practitioner is not required to be independent may reduce the perceived value of the report and undermine the work of the practitioner. This is especially so when the intended users of the report do not understand why independence of the practitioner is not required for a certain AUP engagement.
- 4.3 Others believe, however, that such a statement is good from a public interest perspective as it enhances transparency.
- 4.4 The IAASB may wish to consider the views of users of AUP reports across different jurisdictions as to whether such a statement would reduce the perceived value of the AUP report to determine if the statement should be mandated when independence of the practitioner is not a requirement. Alternatively, if the statement is required to be included in the report, it can be substantiated with reasons why independence is not necessary for the engagement. This would achieve transparency and minimise misinterpretation by intended users.
- 4.5 In addition, we suggest that the table in paragraph 22 of the Explanatory Memorandum be included in ISRS 4400 (Revised) itself to enhance the clarity on the disclosures required in the various scenarios.

*Findings*

**5) Do you agree with the term “findings” and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED-4400?**

- 5.1 We agree with the term “findings” and related definition and application material in ED-4400.

*Engagement Acceptance and Continuance*

**6) Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED-4400, appropriate?**

- 6.1 Paragraph 20(b) of ED-4400 requires the AUP and related findings to be capable of being described objectively, in terms that are clear, not misleading and not subject to varying interpretations, before the practitioner accepts an AUP engagement. In circumstances where the procedures have been established, for example in laws or regulation, or in a contractual agreement (such as terms of reference), the practitioner should be able to assess if the procedures and accordingly, if the related findings, can be described objectively.
- 6.2 However, we question the practicality of the above requirement in all circumstances. As highlighted in paragraph A30 of ED-4400, the process to agree the terms of engagement and performing the AUP can be iterative, with changes to the procedures as the engagement progresses in response to new information coming to light. As a result, it is possible that the practitioner may then determine that related findings of a modified procedure requested by the engaging party is not capable of being described objectively, only subsequent to accepting the AUP engagement. The IAASB should consider addressing such circumstances in the revised standard.

*Practitioner's Expert*

**7) Do you agree with the proposed requirements and application material on the use of a practitioner's expert in paragraphs 28 and A35-A36 of ED-4400, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED-4400?**

- 7.1 The use of a practitioner's expert in an AUP engagement is not common. An expert is usually engaged when his opinion is used to support the position to be given by a practitioner. The need to use an expert in an AUP engagement may suggest that there is a significant amount of professional judgement applied by the expert which is beyond what would typically be applied in an AUP engagement. This may result in the findings from the procedure incapable of being objectively described and verified.
- 7.2 However, we do note that a significant majority of respondents to IAASB's Discussion Paper were of the view that it would be useful to develop new requirements and application material to address the use of the work of a practitioner's expert in an AUP engagement. If the requirements and guidance on practitioner's expert is included in ISRS 4400 (Revised), we suggest greater clarity in paragraph A35 on the use of practitioner's expert such that it is clear that when certain procedures are to be performed by an expert, only the expert's competence and capabilities is applied, and the expert's application of professional judgement does not go beyond that typically applied in an AUP engagement.

7.3 The above should be assessed by the practitioner when determining whether the AUP and related findings can be described objectively prior to accepting an AUP engagement. If the use of professional judgement by the expert is likely to be beyond that typically applied in an AUP engagement, it may not be appropriate for the practitioner to accept the AUP engagement. We suggest for this consideration to be included in the application material relating to engagement acceptance and continuance.

#### *AUP Report*

**8) Do you agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?**

8.1 We agree with providing an option for the practitioner to restrict the AUP report when necessary.

8.2 We suggest that this section of the AUP report be sufficiently prominent. The IAASB may wish to consider applying the similar concept in ISA 800 (paragraph A21) to highlight the restriction in use and, where applicable, the distribution of the report.

**9) Do you support the content and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 2 of ED-4400? What do you believe should be added or changed, if anything?**

9.1 We suggest the inclusion of sub-headers in the AUP report, similar to the auditor's report, which will provide more clarity to the reader.

9.2 Paragraph 18(m) of extant ISRS 4400 currently requires the inclusion of a statement (when applicable) that the report relates only to the elements, accounts, items or financial and non-financial information specified and that it does not extend to the entity's financial statements taken as a whole. In paragraph A37 of ED-4400, the IAASB now does not mandate such a statement. We believe that this should continue to remain as a requirement to provide clarity to the user of the report. The term "may" used in paragraph A37 may potentially pose challenges to the practitioner when they believe that this statement is necessary, but the engaging party considers otherwise.

9.3 We believe that the table of procedures and findings in the AUP report should only include a description of the nature, extent and timing of each procedure and the factual findings. It should not include management's representations or comments. Hence we suggest that the sample finding 2 in illustration 2 of Appendix 2, "*Management has represented to us that the reason that this contract was not subject to competitive*

*bidding was due to a pressing emergency to meet a contractual deadline*", be removed. We are of the view that management's comments, if necessary, should be presented in a separate letter/report from management.

- 9.4 Sample finding 3 in illustration 2 of Appendix 2, "*In all these cases, we found that the different amounts were to accommodate an increase of 1% in the sales tax rate of [jurisdiction] that was effective in September 20X8*", does not appear appropriate in an AUP report. We are of the view that it is not the responsibility of the practitioner to provide such details as it equates to an opinion or conclusion rendered by the practitioner. The responsible party for the subject matter should provide such details and as highlighted above, this should be presented in a separate letter/report from management.

Alternatively, if such details are to be included within the AUP report, we believe it should be clear in the report that such details are from management and management should agree with the practitioner on how they are worded in the report. In that case, paragraph A34 of ED-4400 should be expanded to include an example for the engaging party to provide representation over these details. In addition, a caveat that management's assertions over these details are not part of the practitioner's responsibilities should also be included in the AUP report.

- 9.5 We also suggest for the illustrative procedures and findings to be more granular. Where relevant, they should include details of the following:

- The parties involved (for example, the designations of client personnel to whom inquiries were directed or from whom responses were obtained);
- The documents or information used in the performance of the procedures (for example, "Agree the amount payable as stated in the signed contract and supplier invoice to the actual amount paid to the supplier in the bank statement");
- Key dates or financial periods; and
- Key locations (for example, a particular asset was sighted in a factory located at a specific address).

#### *Other Comments*

- 10.1 The term "responsible party" is mentioned in paragraphs A9, A15 and A38 of ED-4400. However, it is not clear who the responsible party refers to. Notwithstanding that this term is defined in the Glossary, we suggest that the term be defined within ISRS 4400 (Revised) in the context of an AUP engagement. This would enhance the clarity to the reader as to who the responsible party refers to, especially when more than one party, other than the practitioner, is involved in the AUP engagement.

Should you require any further clarification, please feel free to contact Mr Kang Wai Geat, Deputy Director, Audit Quality & Standards Development, or Ms Fua Qiu Lin, Senior Manager, Audit Quality & Standards Development, at ISCA via email at [waigeat.kang@isca.org.sg](mailto:waigeat.kang@isca.org.sg) or [qiulin.fua@isca.org.sg](mailto:qiulin.fua@isca.org.sg) respectively.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Kang Wai Geat' with a stylized flourish at the end.

Ms Fann Kor

Director

Audit Quality & Standards Development, Continuing Professional Education and Industry Support