

Chief Executive
External Reporting Board
PO Box 11250, Manners Street Central
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6 March 2017

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

Dear Warren

On behalf of Ernst & Young I am writing to provide comment on the IAASB's discussion paper "Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards".

We support the IAASB and the NZAuASB's initiatives to respond to developments in the market regarding these types of engagement and support the convergence of New Zealand standards with international standards.

We also note the following, as requested:

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

1. We agree that professional judgement's role in an AUP engagement is in the context of performing the AUP engagement with professional competence and due care and ensuring that the engagement is appropriately scoped. We agree that the procedures in an AUP engagement should result in objectively verifiable factual findings and not subjective opinions or conclusions. We do not agree that there is merit in requiring the practitioner to exercise professional judgment in conducting an AUP engagement similar to the approach taken in ISRS 4410 Compilation Engagements. We would expect professional judgement to be required in a compilation engagement whereas the performance of an AUP engagement should be of a more mechanical nature. We consider that the exercise of judgement in the performance of procedures is more suited to an assurance engagement.
2. We agree with the Working Group 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. We do not see any unintended consequences of doing so.

The Independence of the Professional Accountant

3. In the current statement on AUP engagements in New Zealand issued by the New Zealand Institute of Chartered Accountants, members are required to be objective and act with integrity when performing AUP engagements. They are not required to be independent. This is similar to the current ISRS 4400. If the exercise of professional judgement is limited in the performance of AUP engagements as it currently is, we consider the working group's proposal of requiring a statement in the report of factual findings where the practitioner is not independent is appropriate. We do not think that the assurance practitioner should be required to be independent. Given the nature of this type of engagement, we do not consider that this view would change whether or not the report is restricted to specific users.

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

4. We agree with the working group that it would be useful to provide guidance on what constitutes unclear or misleading terminology in the revised standard. However, defining these terms may be difficult in practice. With the provision of guidance, we also agree with the working group's view that the revised standard should prohibit the use of unclear or misleading terminology.

Where unclear or misleading terminology is required by law or regulation, we consider that it is most appropriate to require practitioners to define the required terms with reference to the required procedures in the AUP report so that they are no longer unclear or misleading (for example, by reference to the associated legislation). If this is not possible or the definition of the required terms mean that the engagement is more suited to an assurance engagement, the practitioner should be required to consider whether an assurance engagement (as opposed to an AUP engagement) would be more appropriate.

We do not consider that this view would change whether or not the report is restricted to specific users. We do consider however that clarity of wording is particularly important if the reports are to be made available to a wider group of parties.

AUP Engagements on Non-Financial Information

5. In the current statement on AUP engagements in New Zealand issued by the New Zealand Institute of Chartered Accountants, it is clarified that the statement applies to both financial and non-financial information. The practitioner is also required to ensure that they have the necessary competence to take on such engagements. We are not aware of issues experienced in practice from this approach. We therefore agree with the working group's proposed approach to require the practitioner and the engagement team to have sufficient competence in the subject matter. We also note that it is similarly important that the practitioner consider their competence to take on financial engagements.
6. We are not aware of any other matters that should be considered if the scope is clarified to include non-financial information.

Using the Work of an Expert

7. We agree with the Working Group's views that ISRS 4400 should be enhanced as explained in the discussion paper for the use of experts in AUP engagements. However, we note that use of experts in AUP engagements is very uncommon in New Zealand.

Format of the AUP Report

8. We agree with the Working Group's suggestions for improvements to the AUP report. We consider that they will enhance readability of the report and strengthen the link between the agreed procedure and the results of those procedures. We believe that the practitioner should be free to use a format which suits the particular needs of the user and/or presents the findings in the most understandable fashion.

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

9. In the New Zealand context, the restriction of AUP reports to only those signatories to the AUP engagement letter can prove problematic. There are a number of standard reports which are required to be provided to other parties such as regulators who are not party to the terms of the engagement. We therefore agree with the working group that it would be useful to clarify 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 reports are to be made available to a wider group of parties, it would be particularly desirable to ensure that the procedures are clear in the report and any unclear terms are appropriately defined by the practitioner. However, we consider that it would be inappropriate for AUP reports to be used for “general purposes” as all readers are unlikely to have the necessary context to understand the scope of work or findings.

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

10. Notwithstanding that we consider it inappropriate for AUP reports to be used for general purposes, there are inevitable situations where broad dissemination occurs, either by design or otherwise. Consequently, we agree with the Working Group’s position that the option in paragraph 44(c) is the best approach for restricting the AUP report. We agree that it achieves an appropriate balance between addressing the concern regarding unintended parties misinterpreting findings while allowing the AUP report to be made more widely available. We think it important that as far as possible, the parties receiving the report are aware of the terms of the engagement.
11. We do not propose any alternative approaches but we consider that it is preferable that only one approach be permitted.

Recommendations Made in Conjunction with AUP Engagements

12. We agree with the Working Group’s view that recommendations should be clearly distinguished from the procedures and factual findings. Recommendations are often driven by opinion on a matter and are not factual. If possible, we consider that recommendations should be in a separate report.

Other Issues relating to ISRS 4400

13. We have not identified any other areas in ISRS 4400 that need to be improved to clarify the value and limitations of an AUP engagement.

Multi-Scope Engagements

14. We agree with the Working Group that non-authoritative guidance would be useful in light of the emerging use of multi-scope engagements. We consider this is the best approach to clarify to practitioners that each part of the engagement should be covered by current IAASB pronouncements.
15. We agree with the Working Group’s view that it should address issues within AUP engagements before it addresses multi-scope engagements. We consider it important to provide more guidance on the scope and limitations of AUP engagements to practitioners before addressing further guidance on multi-scope engagements.

Please contact me if you would like to discuss this submission further.

Yours Sincerely

Marcus Henry
New Zealand Professional Practice Director