



11 March 2019

Our Ref.: C/AASC

International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor,
New York
NY 10017
USA

Dear Sirs,

IAASB Exposure Draft, Proposed ISRS 4400 (Revised), *Agreed-Upon Procedures Engagements*

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only statutory body in Hong Kong that sets auditing and assurance standards, ethical standards and financial reporting standards. We welcome the opportunity to provide our comments on the captioned IAASB Exposure Draft (ED-4400).

We support the IAASB's commitment in restructuring and modernising the standard such that it stays relevant in the face of continually changing circumstances.

Our responses to the specific questions in ED-4400 are included in the attachment. We trust that our comments are of assistance to the IAASB in deciding the next steps. If you require any clarification on our comments, please do not hesitate to contact our Selene Ho, Deputy Director at selene@hkiipa.org.hk.

Yours faithfully,

Chris Joy
Executive Director

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HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS'
COMMENTS ON THE IAASB'S EXPOSURE DRAFT
ISRS 4400 (REVISED) AGREED-UPON PROCEDURES ENGAGEMENTS

Overall Question

1) Has ED-4400 been appropriately clarified and modernized to respond to the needs of stakeholders and address public interest issues?

The proposed changes in ED-4400 enhance practitioner's understanding in the performance of an AUP engagement. It promotes a robust process in the acceptance and continuance assessment, planning, executing and reporting of an AUP engagement. ED-4400 also addresses the needs of stakeholders and public interest issues through clarifying the relationship with ISQC 1 in respect of a firm's AUP engagement; enhancing practitioner's independence disclosure in the AUP report, where applicable and providing guidance to practitioners on the use of terminology in the context of an AUP report etc.

With the clarification of the relationship with ISQC 1, it sets the expectation that only a firm of professional accountants that is subject to ISQC 1 or requirements that are at least as demanding would be able to conduct an AUP engagement. This clarification enhances the level of confidence and the value of the AUP report by stakeholders.

However, we note that paragraph 30(e) of ED-4400 states that "If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ISQC 1."

In general, a "practitioner" other than a professional accountant may not be subject to the legal or regulatory monitoring by the local accountancy body. As such, the local accountancy body is not a position to understand or assess the professional requirements applied that are at least as demanding as ISQC 1. This may lead to inconsistency in quality of work performed. We would suggest the IAASB to clarify its intention and provide examples of a practitioner other than a professional accountant who may be expected to conduct an AUP engagement.

Furthermore, given that the practitioner of an AUP engagement may not be the same as the statutory auditor of the entity's financial statements; it would be useful for the IAASB to clarify if the practitioner conducting an AUP engagement is expected to have the same level of qualifications as the statutory auditor. It would be in the public interest of stakeholders, in particular the users of the AUP report to expect a practitioner undertaking AUP engagements to have the same level of professional qualifications as that of a statutory auditor.

We also note that ED-4400 is silent with respect to engagement quality management. We would recommend the IAASB to provide examples where an engagement quality review might be appropriate for an AUP engagement (e.g. the AUP report is



expected to be included in a regulatory filing) and make references to the relevant quality management standards on the requirements of an engagement quality review.

Specific Questions

Professional Judgment

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

While we agree that professional judgement is important in an AUP engagement for client acceptance and in the scenarios suggested by paragraph A15 of ED-4400, we would highlight that paragraphs 18 and A14 of ED-4400 may lead to unintended misinterpretation of the role of professional judgment plays in an AUP engagement.

Typically, executing and reporting an AUP engagement does not involve professional judgement; different practitioners undertaking the same AUP engagement are expected to arrive at the same findings. However, the use of the phrases "taking into account the circumstances of the engagement" in paragraph 18 and "in making informed decisions about courses of actions throughout the AUP engagement" in paragraph A14 may suggest that professional judgement is required in performing an AUP. This contradicts with the fact that an AUP engagement should result in objectively verifiable factual findings and not subjective opinions or conclusions.

We would recommend the IAASB to clarify in what context the "informed decisions" are expected to be made throughout the engagement after the procedures have been agreed. In addition, it would be helpful to re-locate A16 to after A14 for better flow.

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?**

An AUP engagement is not considered a "prohibited service" under the IESBA Code and the nature of the engagement would not impair the practitioner's independence. Therefore, we support the proposed approach in ED-4400:

- Not including a precondition for the practitioner to be independent when performing an AUP engagement; and
- Emphasizing the overarching requirement of practitioner's compliance with relevant ethical requirements ordinary comprise the IESBA Code and national requirements that are more restrictive (paragraphs 17, A12 and A13 of ED-4400).

- 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.

We are supportive on the practitioner's independence disclosures in the AUP report in the various scenarios described in ED-4400.

Consistent with our view in Question 3 and given the practitioner's independence disclosures proposed in ED-4400, we do not consider it necessary for the practitioner to make an independence determination when not required to be independent for an AUP engagement by the relevant ethical requirements, terms of the engagement or other reasons.

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?

We agree with the term "findings" and the related definitions and application material in ED-4400 in the context of an AUP engagement.

To be consistent with the definition, "Factual results" in paragraph A10 should be "Findings".

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?

In general, we believe the practitioner will need to determine the following as part of the engagement acceptance and continuance consideration:

- Whether there is a need for an expert on the subject matter of the AUP engagement;
- Whether experts are available if needed; and
- Whether the practitioner has sufficient understanding of the subject matter to understand the expert's work and what constitutes an exception in the context of ED-4400.

We would recommend that IAASB considers adding the criteria in paragraph 28(a) to (c) of ED-4400 to be considered for engagement acceptance and continuance.

With respect to paragraphs 20 and 21 of ED-4400, we believe additional guidance should be developed when assessing the acceptance of an AUP engagement involving non-financial information. For example, whether the subject matter information can be measured objectively and is appropriate for the purpose of an AUP engagement; whether the practitioner is competent to understand the subject matter information and is capable to perform the procedures objectively; if there is a



need for an expert, whether the practitioner is able to understand the expert's work and what would constitute an exception. In addition, we recommend paragraph A28 be expanded to include examples of non-financial subject matters in the context of an AUP engagement.

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?

I. Using the Work of a Practitioner's Expert

In principle, we support the enhancement on the use of a practitioner's expert in ED-4400.

However, circumstances involving the use of a practitioner's expert may connote the application of judgement on the subject matter information, rather than resulting in objectively verifiable finding. Further guidance should be developed to state that whenever a need to engage a practitioner's expert is foreseen, it is important for the practitioner to re-assess the suitability of an AUP engagement in reporting the subject matter information.

In our view, some of the examples in paragraph A35 may not be appropriate in the context of an AUP engagement. For example, engaging different lawyers on the legal aspects of a contract may result in different opinions on the issue concerned and result in subjective conclusions. We would recommend that examples in A35 be clarified on the appropriate circumstances involving an expert in an AUP engagement.

With reference to paragraph 28(b) of ED-4400, we believe further application guidance should be developed on practitioner's involvement in the work of expert, for example, the practitioner may consider requesting a written report from the expert on work performed or reviewing the work papers of the expert. We understand that IAASB is currently undertaking a project to revise ISQC 1 and the relevant paragraphs in ED-4400 relating to quality control, which may include those relating to the use of practitioner's expert in an AUP engagement, are subject to change.

II. The AUP Report

It is clear from paragraphs 19(a) and A36 of ED-4400 that the engagement partner shall take responsibility for the overall quality of an AUP engagement, including work performed by a practitioner's expert.

We believe the guidance in paragraph 31 is more appropriate to be placed after paragraph 28. The guidance in paragraph 31 is not related to the form and content of the AUP report and it does not contain any requirement for a statement. If it is the intention of IAASB to include a statement in the AUP report where the work of an expert has been referred to in the report (as set out in Illustration 2 of Appendix 2), we would suggest the IAASB to explicitly state so in paragraph 30.



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?**

We agree that the AUP report should not be restricted to a party that is not a signatory to the engagement letter. Typically in Hong Kong, an AUP report is submitted to a regulator who would not be a signatory to the engagement letter for compliance reporting purposes.

We welcome the guidance provided by paragraph A43 for practitioner to indicate the restricted distribution or use of the report, which provides flexibility to practitioner in addressing specific nature and/or circumstance of the engagement. The statement would be a useful alert to users or readers and would reduce the risk of unintended misinterpretation of the AUP report by those who are not involved in the engagement.

There may be circumstances where extracts of an AUP report might be included in a public document (e.g. references to part of the procedures performed in the engagement and auditor's findings thereon) without the full AUP report being made available. The inclusion of such extracts may lead to unintended misinterpretation. We would recommend the IAASB to develop additional guidance on practitioner's responsibilities and appropriate action in this regard.

- 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?**

In general, we support the content and structure of the proposed AUP reports in ED-4400.

With reference to paragraph 31, it would be helpful if the standard clearly indicates whether it is a requirement for practitioner to make reference to the work performed by the practitioner's expert (if used) in the AUP report.

~ END ~