



29 March 2017

Our Ref.: C/AASC

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

Dear Sirs,

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

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The HKICPA sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong. We welcome the opportunity to provide our comments on the captioned IAASB Discussion Paper (DP).

We support the IAASB's continuing efforts to enhance pronouncements to meet market needs and appreciate the IAASB's commitment in revising the standards such that they stay relevant in the face of continually changing circumstances.

Our responses to the specific questions in the DP 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, Associate Director at [selene@hkicpa.org.hk](mailto:selene@hkicpa.org.hk).

Yours faithfully,

Chris Joy  
Executive Director

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**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS'  
COMMENTS 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**

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

1. 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?

*We agree with the view that the role of professional judgment in an AUP engagement is in the context of professional competence and due care and that the results are objectively verifiable factual findings.*

2. Should revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?

*It would be useful to clarify the intentions and expectations of the standard relating to professional judgement. In addition, the IAASB may wish to consider clarifying the level of "professional competence" required to avoid confusion. Given that the practitioner of an AUP engagement may not be the same as the auditor of the entity's financial statements, it may result in practitioners having different levels of "professional competence" e.g. In Hong Kong, professional accountants who are appointed as auditors of a company are required to hold a practicing certificate. It should be made clear in the standard whether professional accountants undertaking AUP engagements should have the same level of "professional competence" or qualifications as that of an auditor of an entity.*

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

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

*Given that an AUP engagement is not considered a "prohibited service" under the IESBA Code and that the nature of the engagement would not impair the practitioner's independence, we support the Working Group's position to retain the existing approach in ISRS 4400 of requiring a statement in the report of factual findings where the practitioner is not independent. The Working Group would need to consider the costs and benefits of imposing independence requirements for an AUP engagement.*

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

4. 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?

*It would be beneficial to provide some guidance on unclear or misleading terminology to avoid, even if the AUP report is restricted. This would help to reduce any expectation gap.*

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

5. 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?

*We are supportive of clarifying the scope of ISRS 4400 to include non-financial information and agree to developing pre-conditions relating to competence to undertake an AUP engagement on non-financial information.*

*In Hong Kong, some grantors have requested for AUP engagements on internal controls in addition to an audit of the project's financial statements. We have developed some guidance for our members and they are available at the following links:*

- *Circular on Reporting to Grantees of the Quality Education Fund*  
[http://www.hkicpa.org.hk/file/media/section6\\_standards/standards/Audit-n-assurance/cir/QEF1016.pdf](http://www.hkicpa.org.hk/file/media/section6_standards/standards/Audit-n-assurance/cir/QEF1016.pdf)
- *Circular on Reporting to Grantees of the Language Fund*  
[http://www.hkicpa.org.hk/file/media/section6\\_standards/standards/Audit-n-assurance/cir/LF1016.pdf](http://www.hkicpa.org.hk/file/media/section6_standards/standards/Audit-n-assurance/cir/LF1016.pdf)

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

*It is often that grantors would like practitioners to check on operational matters such as compliance with procurement or employment procedures. Hence, there should be some criteria established/recommended by the grantor or internal control manual against which the practitioner can perform the checking. The practitioner should not undertake the engagement if the scope of work is ambiguous such as checking if the grantee has complied with the terms of the agreement or if the grants have been used accordingly to the agreement or the purpose of the grant.*

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

7. 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?

*In principle, we agree that ISRS 4400 should be enhanced for the use of experts in*

*AUP engagements. As an AUP engagement is different in nature from an audit engagement; the report should identify the procedures that are performed by the expert and the respective findings so that readers of the report can clearly distinguish the procedures performed by the various parties.*

*Guidance should be developed as to how a practitioner should determine the nature, timing and extent of procedures performed by the expert is consistent with the procedures agreed in the terms of engagement e.g. by requesting the expert to provide a report?; reviewing the work papers of the expert?.*

*In addition, the Working Group should also consider whether the AUP report is to be signed off by the practitioner or jointly if an expert is used. In an audit of a set of financial statements, the auditor is responsible for the opinion reflected on the auditor's report; whereas in an AUP report, there is no opinion. There may be a scenario where most of the work is performed by an expert, but the report is being signed off by a practitioner.*

### **Format of the AUP Report**

8. What are your views regarding the Working Group's suggestions for improvements to the illustrative AUP report?

*We agree that for engagements involving many procedures, a tabular format may be more appropriate.*

*In the links provided in Q5 to circulars issued by the HKICPA, the illustrative AUP report is set out in a tabular format.*

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

9. 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?

*We agree that the AUP report can be provided to a party that is not a signatory to the engagement letter. Typically, an AUP report is submitted to a regulator who would not be a signatory to the engagement letter.*

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

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

*We are of the view that the third approach is the most appropriate. By including a statement which clarifies the purpose and the specific users would be a useful alert to readers. Whilst the third approach may not fully address the objective of mitigating the risk of those who have not agreed to the procedures from misinterpreting the AUP report, we believe the risk of misinterpretation would be reduced by the proposed guidance on terminology in describing procedures and reporting.*

*The second approach is the least appropriate as it is only agreed between the entity and the practitioner and therefore it lacks transparency. Readers should be made aware of any such restrictions if the report is to be posted online or given to other parties.*

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

*No further comments.*

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

12. 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?

*We agree that recommendations should be clearly distinguished from the procedures and factual findings. We believe that the recommendations should be in a separate document from the AUP report. This is to ensure that the recommendations do not in any way (unintended or not) affect the mindset of the readers when interpreting the results. The recommendations, to a certain extent, are based on the practitioner's professional judgement and they may influence the reader's objectivity if they are included in the AUP report (even if in a separate section of the AUP report).*

### **Other Issues relating to ISRS 4400**

13. 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.

*Regulators often do not understand the value of an AUP engagement and they prefer an assurance report to be provided by professional accountants. The introduction paragraphs of ISRS 4400 could be enhanced to discuss the value and in certain circumstances, depending on the objectives of regulator, an AUP engagement may be more appropriate as compared to an assurance engagement.*

### **Multi-Scope Engagements**

14. 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?

*With regulators increasingly relying on professional accountants to carry out assurance and/or AUP engagements to improve accountability, it would be helpful to develop a standard addressing multi-scope engagements. We appreciate the time and effort required to develop a standard, a non-authoritative guidance outlining how "multi-scope" engagements could be addressed using the current suite of standards would be useful. Such non-authoritative guidance would also help regulators to understand why professional accountants may not be able to perform certain engagements.*

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

*We support the Working Group's view to update ISRS 4400 first before developing guidance on multi-scope engagements. Hopefully, the updated ISRS 4400 would better address the objectives of regulators and would be more receptive to such reporting.*

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