

Building Trust through Agreed-Upon Procedures

by [Bodo Richardt](#), President, European Federation of Accountants and Auditors for SMEs and [Paul Thompson](#), Director, European Federation of Accountants and Auditors for SMEs | March 13, 2017 | 

We live in a time when there is an increasing deficit of trust—in government, in the media, in business, in markets. The [Edelman 2017 Trust Barometer](#) provides ample evidence of the scale and significance of this deficit. Accountants, as providers of services that build credibility and trust, primarily in published financial information, therefore have a great opportunity.

What services can accountants offer that can play some part, a significant part, in building trust in business? To help identify innovative new ways of building credibility and trust, especially in business and markets—beyond the financial, and beyond assurance—the International Auditing and Assurance Standards Board (IAASB) released the [Discussion Paper \(DP\), Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards](#) last November (the deadline for responses is March 29, 2017).

The [European Federation of Accountants and Auditors for Small- and Medium-sized Entities \(EFAA\)](#) is highly supportive of this project as it sees much potential for growth in these types of engagements, engagements that stand to offer real value to small- and medium-sized entities (SMEs). The challenge will be to ensure that any revised or new standards and/or guidance is principles based, scalable, and leaves room for innovation.

This consultation is central to the IAASB's [current work plan](#), which recognizes the importance of addressing the concerns of small- and medium-sized practices (SMPs), including considering how auditing standards can be effectively applied to audits of SMEs, and standards to support other services provided by SMPs. Of course, SMPs increasingly provide advisory services, which help drive business performance and can foster trust.

Let's be clear: this is a win-win. A win for the profession, especially accountants in practice, as it builds demand for its services and expertise, and a win for business, society, and the public interest, all of which gain from greater trust. The right engagement standard could help accounting firms greatly expand their offerings known as agreed-upon procedures (AUP). Indeed the IFAC SMP Committee [issued a brochure](#) last year that clearly and concisely explains, in layman's terms, the various offerings from audit through to AUPs. In addition, a committee member [previously explained](#) the value of SMPs growing their practice off the back of AUPs.

What is an AUP?

[International Standard on Related Services \(ISRS\) 4400, Engagements to Perform Agreed-upon Procedures Regarding Financial Information](#) establishes requirements and provides guidance for performing an AUP engagement. Under ISRS 4400, an AUP engagement involves a practitioner performing procedures that have been agreed to by the practitioner, the entity, and any appropriate third parties, and then reporting on the factual findings based on the procedures performed.

In conducting an AUP engagement in accordance with ISRS 4400, the practitioner does not express an opinion. Users of the AUP report assess for themselves the factual findings based on the procedures performed and draw their own conclusions. Appendix A of the Discussion Paper, reproduced below, provides some examples of subject matter information on which AUP engagements may be performed.

AUP Engagements Where the Subject Matter Information Is Financial Information	AUP Engagements Where the Subject Matter Information Is Non-Financial Information
Report on eligibility of expenditures claimed from a funding program	Report on the operation of internal controls over financial reporting
Report on revenues (e.g., for determining royalties, rent, franchise fees based on a % of revenues)	Report on compliance with “green packaging” requirements
Reconciliation between different financial reporting frameworks	Report on number of passengers to a civil aviation authority

Report on compliance with bank covenants	Report on greenhouse gas emissions
Report on capital adequacy ratio for regulatory authorities	Report on observation of destruction of fake or defective goods
Calculations of financial ratios of projected cash flows for reporting to tax authorities	Report on data generating processes for national lottery draws

We suspect that with the right standard, allied with greater awareness and understanding by accountants, entities, and third parties as to how AUPs might be conducted on wider range of subject matters, the market for such services could greatly increase.

How can you help the IAASB?

For the IAASB to be able to develop the right standard, or perhaps simply clarify and improve the existing one, and, thereby allow SMPs and SMEs to realize the potential of AUPs, it is vital that accounting practices, professional accountancy organizations, and especially SMPs and SMEs, respond. Throughout the Discussion Paper, questions that are repeated and [presented together on page 22](#). We strongly encourage you to respond.

We'd also like you to share your views on some of the key issues in the comments below. These comments will prove especially useful to the IAASB, which often fails to hear directly from SMPs and SMEs. Set out below are some of the key issues and EFAA's preliminary position, if any. These positions may change as we discuss and explore the issues further and hear the views of readers and others.

Q1. The Role of Professional Judgment and Professional Skepticism in an AUP Engagement

Do you agree that professional judgment has a role in an AUP engagement, particularly in the context of performing the engagement with professional competence and due care, but that the procedures in an AUP engagement should result in objectively verifiable factual findings?

We agree.

Q2. The Independence of the Professional Accountant

Should the practitioner conducting AUP engagements be independent?

We disagree. SMEs typically place their trust in the competence and integrity of SMPs. We also refer to our understanding that AUP engagements should result in objectively verifiable factual findings. The appearance of independence is not especially important in the context of SMPs providing AUP to SMEs.

Q3. AUP Engagements on Non-Financial Information

Should the scope of ISRS 4400 include non-financial information?

Yes. Increasingly it is non-financial information that stakeholders seek to help them determine businesses' performance and prospects as well as how well they are governed and manage risk.

Q4. Format of the AUP Report

Do you agree that an illustrative AUP report that presents the procedures and corresponding findings in a tabular format, or one that presents each procedure and corresponding finding together, will facilitate better communication than the existing illustrative report (which simple lists procedures followed by findings)?

We agree.

Q5. AUP Report Restrictions – To Whom the AUP Report Should be Restricted

Q6. Do you agree that the AUP report can be provided to a party that is not a signatory to the engagement letter so long as the party has a clear understanding of the AUP and the conditions of the engagement?

We agree.

Q6. Recommendations Made in Conjunction with AUP Engagements

Do you agree that recommendations should be clearly distinguished from the procedures and factual findings?

We agree.

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[See more by Bodo Richardt](#) ↪

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