



March 29, 2017

International Auditing and Assurance Standards Board
545 Fifth Avenue
New York, NY 10017

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

To the IAASB AUP Working Group:

The American Institute of Certified Public Accountants (AICPA) is pleased to comment on the above-referenced discussion paper.

This letter provides the AICPA Auditing Standards Board's (ASB) response to the request for specific comments. The ASB is the AICPA's senior committee for auditing, attestation, and quality control applicable to engagement performance and issuance of audit and attestation reports for nonissuers. Therefore, our comments are provided in the context of audits of non-public entities.

We would like to commend the International Auditing and Assurance Standards Board (IAASB) on its efforts to address agreed-upon procedures (AUP) engagements. We believe AUP engagements are a valuable service that the profession offers and support the IAASB's effort to enhance the International Standards relating to AUP engagements.

Questions for Stakeholder Input

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

Q1. 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?

Yes, the views of the ASB regarding the role of professional judgment are consistent with these results. Under the ASB's Statements on Standards for Attestation Engagements (SSAEs), the practitioner is required to exercise professional judgment in planning and performing an AUP engagement.

Q2. Should revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?

We believe that revised ISRS 4400 should include a requirement that the practitioner exercise professional judgment in planning and performing an AUP engagement. We are not aware of any unintended consequences of doing so.

The Independence of the Professional Accountant

Q3. *What are your views regarding practitioner independence for AUP engagements? Would your views change depending on whether the AUP report is restricted?*

In the United States, there is a common view that AUP report findings will be more credible if the procedures are performed by an independent CPA. Therefore, the AICPA's attestation standards require that the practitioner be independent. As we require that the use of the report be restricted in all AUP engagements, we do not believe our views would change whether the AUP report is restricted or not. The ASB, in tandem with the AICPA's Accounting and Review Services Committee (ARSC), is also in the process of developing a standard for exposure that would provide a service similar to an AUP; however, it would allow the practitioner to share in the responsibility of designing the appropriate procedures, which could theoretically allow for issuing unrestricted reporting of findings. Consistent with AUP engagements, the boards are currently looking to require the practitioner to be independent in performing this new service.

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

Q4. *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 depending on whether the AUP report is restricted?*

We strongly support a prohibition on unclear or misleading terminology with related guidance about what unclear or misleading terminology means, as can be found in SSAE AT-C section 215, *Agreed-Upon Procedures Engagements*. As we require that the use of the report be restricted in all AUP engagements, our views would not change if the AUP report is restricted under ISRS 4400. We do not believe that unclear or misleading terminology is ever appropriate, even if the report is restricted to selected parties.

AUP Engagements on Non-Financial Information

Q5. *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?*

Q6. *Are there any other matters that should be considered if the scope is clarified to include non-financial information?*

We support clarifying that the scope of ISRS 4400 may include performing AUP over non-financial information. The information that is the subject matter of the AUP engagement need not be financial information as long as the subject matter is appropriate and the criteria to be applied in the preparation and evaluation of the subject matter are suitable and will be available to the intended users. ISAE 3000 discusses the suitability of criteria.

We also support developing requirements relating to competence to undertake any AUP engagement, whether it be on financial information or non-financial information. The SSAEs (AT-C section 105, *Concepts Common to All Engagements*, par. 32) require the engagement partner to be satisfied that the engagement team, including any practitioner's external specialists, have the appropriate competence, including knowledge of the subject matter, and capabilities to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements, and enable the issuance of a practitioner's report that is appropriate in the circumstances. We believe that this is necessary to achieve the appropriate level of quality in every engagement.

Using the Work of an Expert

Q7. *Do you agree with the Working Group's views that ISRS 440 should be enhanced, as explained above, for the use of experts in AUP engagements? Why or why not?*

The ASB agrees that ISRS 4400 should be enhanced, as described in the Discussion Paper, for the use of experts in an AUP engagement. The SSAEs address the use of experts in attestation engagements, including AUP engagements. In addition to the requirements described in the paper, AT-C section 215 requires that in AUP engagements, the practitioner's report on an AUP engagement describe the nature of the assistance provided by the practitioner's external specialist. Describing the role of the expert can be helpful to the users in evaluating how the procedures were executed by the practitioner, particularly in cases where the nature of the subject matter or criteria may be nonfinancial or specific to the conventions of a certain industry or process.

Format of the AUP Report

Q8. *What are your views regarding the Working Group's suggestions for improvements to the illustrative AUP report?*

We support the suggestions for improvements.

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

Q9. 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?

The SSAEs distinguish between *engaging parties*, who engage the practitioner and with whom the terms of engagement are agreed, and the intended users of the report, referred to as *specified parties*. Specified parties are required to be identified in the engagement letter and to acknowledge their responsibility for the sufficiency of the procedures. The SSAEs also provide for the addition of a specified party after the completion of the AUP engagement. Such party is referred to as a *nonparticipant party*, and the practitioner is required to obtain affirmative acknowledgement from the nonparticipant party agreeing to the procedures performed and of its taking responsibility for the sufficiency of the procedures. Accordingly, the ASB believes that the AUP report can be provided to a party that is not a signatory to the engagement letter provided that the party has acknowledged agreement to the procedures performed and has taken responsibility for the sufficiency of the procedures. As noted in Q3 above, the ASB and ARSC are currently engaged in developing an alternative service, which may ultimately allow for a practitioner to issue an unrestricted report on findings, wherein the practitioner has a shared responsibility for the development of the procedures and an assertion is not required of the responsible party. Although it is early to predict the outcome of this project, the preliminary board discussions are supportive.

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

Q10. In your view, which of the three approaches described in paragraph 44 is the most appropriate (and which ones are not appropriate)? Please explain.

Q11. Are there any other approaches that the Working Group should consider?

Recognizing that distribution of a report can be difficult if not impossible to control, the ASB believes that use of the report should be restricted to specified parties, who are responsible for the sufficiency of the procedures.

If law or regulation require that the report be provided to a party that is not a signatory to the engagement letter – for example, requiring that the report be made available to the public – the SSAEs require that the report include an alert that describes the purpose of the report, and states that the report is not suitable for any other purpose. We recommend the IAASB consider a similar approach as our experience indicates that this accommodation has been important for practitioners in regulatory reporting circumstances (for example, recent Securities and Exchange Commission requirements related to due diligence engagements for asset-backed securitization transactions).

Recommendations Made in Conjunction with AUP Engagements

Q12. 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 note that our general experience with AUPs is that the reporting of findings and the inclusion of recommendations, arising from the execution of the procedures or otherwise, is not frequently included with the report. That said, we do agree that if the practitioner were to include recommendations related to the performance of the procedures, those recommendations should be clearly distinguished from the procedures and factual findings. We recommend that practitioners be allowed flexibility in determining the method for clearly distinguishing the recommendations (that is, not require separate reports) and could include the use of appropriate headings.

Other Issues relating to ISRS 4400

Q13. 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.

AT-C section 215 contains requirements and guidance addressing situations where the responsible party (that is, the party responsible for the subject matter) is not the engaging party, as well as requirements for written representations. The ASB believes that such requirements would improve ISRS 4400.

Multi-Scope Engagements

Q14. 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?

Q15. Do you agree with the Working Group's view that it should address issues within AUP engagements before it addresses multi-scope engagements?

AT-C section 215 contains the following guidance in the scope section that is relevant to multi-scope engagements:

When a practitioner performs services pursuant to an engagement to apply agreed-upon procedures to subject matter as part of or in addition to another form of service, this section applies only to those services described herein; other professional standards would apply to the other services. Other services may include an audit, review, or compilation of a financial statement, another attestation service performed pursuant to the attestation standards, or a nonattestation service. A practitioner's report on applying agreed-upon procedures to subject matter may be combined with a report on such other services, provided the types of services can be clearly distinguished, and the applicable standards for each service are followed.

We believe that adding the above guidance to revised ISRS 4400 would suffice. To the extent the IAASB does not agree, we agree with the Working Group that issues within AUP engagements should be addressed before multi-scope engagements are addressed.

Thank you for the opportunity to comment on this discussion paper. If you have any questions regarding the comments in this letter, please contact Ahava Goldman at agoldman@aicpa.org.

Respectfully submitted,

/s/ Michael J. Santay
Chair, Auditing Standards Board