



March 15, 2019

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017

Re: Exposure Draft: Proposed International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements* (ED-4400)

Dear Mr. Botha:

The American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) is pleased to respond to the International Auditing and Assurance Standards Board's (IAASB) above referenced exposure draft.

The AICPA is the world's largest member association representing the accounting profession, with more than 431,000 members in 143 countries and a history of serving the public interest since 1887. AICPA members represent many areas of practice, including business and industry, public practice, government, education, and consulting. Among other things, the AICPA sets ethical standards for the profession and U.S. auditing standards (generally accepted auditing standards or GAAS); attestation standards (Statements on Standards for Attestation Engagements or SSAEs); and standards for financial statement preparation, compilation, and review engagements (Statements on Standards for Accounting and Review Services or SSARs) for private companies, nonprofit organizations, and federal, state and local governments (nonissuers).

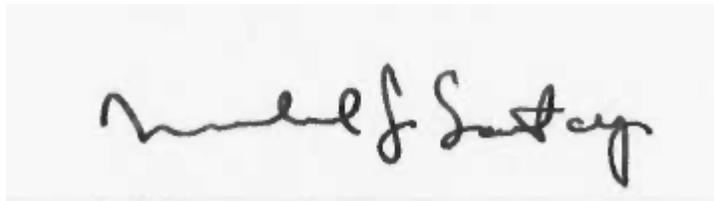
As set forth in the Explanatory Memorandum to ED-4400 (Explanatory Memorandum), ED-4400's proposals are intended to clarify, enhance, and modernize key concepts of an agreed-upon procedures (AUP) engagement. We are supportive of the IAASB's project to enhance extant ISRS 4400 because, as stated in the Explanatory Memorandum, the demand for AUP engagements continues to grow and the clarification, enhancement, and modernization of the standard for such engagements will result in the service remaining relevant and the reports providing users with information needed for their purposes. In addition, as the AUP service may be an effective and efficient service for entities who do not require an audit – especially SMEs, clarifying, enhancing, and modernizing the standard for such engagements may make the service more relevant for such entities and practitioners.

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For the IAASB's consideration, in the appendix to this letter, we have provided our specific responses to the questions presented in ED-4400.

Thank you for the opportunity to comment on this exposure draft. If you have any questions regarding the comments in this comment letter, please contact me at Mike.Santay@us.gt.com or Mike Glynn at mike.glynn@aicpa-cima.com.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael J. Santay". The signature is written in a cursive style with a prominent initial "M".

/s/ Michael J. Santay

Chair, Auditing Standards Board

Appendix

Responses to ED-4400 Questions

Overall Question

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

Response: While we believe that several of the proposed revisions included in ED-4400 will result in enhancements to the clarity and modernization of the standard and are responsive to the needs of stakeholders and address public interest issues, we believe that ED-4400 could better address the common engagement scenario where the procedures to be performed by the practitioner are not known at the point of engagement.

Paragraph 23 acknowledges that procedures may be modified over the course of the engagement but requires that such procedures be reflected in an amended engagement letter. The requirement for an amended engagement letter becomes impractical when procedures are developed or revised more than once over the course of the engagement.

As discussed in our response to Question 6, a practical approach is to require the engaging party to acknowledge that the procedures are appropriate for the purpose of the engagement before the report is issued. Associated application guidance may state that, if the procedures are known at the outset, the acknowledgment may be included in the engagement letter. Otherwise the acknowledgment may be documented in an amended engagement letter, an addendum to the engagement letter, or other suitable form of written communication. If the acknowledgment is to be obtained after agreeing on the terms of the engagement, we propose that the engagement letter include a statement that the engaging party will provide such an acknowledgment prior to the issuance of the practitioner's agreed-upon procedures report.

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?*

Response: Yes.

As acknowledged in the Explanatory Memorandum, while the *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* states that the nature of International Standards requires the professional accountant to exercise professional judgment in applying them, *professional judgment* is not discussed in extant ISRS 4400. Incorporating a definition, requirement, and application material on professional judgment that appropriately reflects the role professional judgment plays in an AUP engagement is a clear enhancement of the standard and will result in more consistent application by practitioners.

Further, we agree that the proposed definition of *professional judgment* in paragraph 13(j) is appropriate.

However, we recommend that paragraphs 18 and A14 be revised as follows (proposed new language is in ***boldface italics***; proposed deleted is in ~~strike through~~):

18. The practitioner shall ~~apply~~ ***exercise*** professional judgment in ~~accepting and conducting~~ ***planning and performing*** an agreed-upon procedures engagement, taking into account the circumstances of the engagement. (Ref: Para. A14-A16)

A14. Professional judgment is ~~applied in the acceptance and~~ ***essential to the*** proper conduct of an agreed-upon procedures engagement. ~~This is because Professional judgment is necessary to~~ ***interpretation of and apply*** relevant ethical requirements and this ISRS, ~~and in making~~ ***and the*** informed decisions ***required throughout the engagement cannot be made without the application of relevant knowledge and experience to the facts and circumstances*** ~~about courses of action throughout the agreed-upon procedures engagement.~~

The proposed revisions would result in consistency with the requirement and corresponding application guidance from paragraphs 16 and A25 of ISA 200 (Revised), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*. While we agree that the exercise of professional judgment in an AUP engagement differs from that in an assurance engagement, we believe that the qualifier “taking into account the circumstances of the engagement” appropriately differentiates the services. We believe that any additional differences would result in practitioner confusion.

While we recognize that the *International Code of Ethics for Professional Accountants (including International Independence Standards)* includes provisions for avoiding association with misleading information, we believe that the last bullet in paragraph A15 may confuse practitioners and suggest that the phrase “or indicate that the information

may be misleading” be deleted as it raises the question as to what context the information may be misleading.

Finally, the last sentence in paragraph A16 also may lead to confusion as the example seems to run to the subjectivity of the procedure as opposed to professional judgment. We propose that paragraph A16 be revised as follows (proposed new language is in **boldface italics**; proposed deleted is in ~~strike through~~):

A16. Unlike in an assurance engagement, the procedures performed in an agreed-upon procedures engagement are not designed by the practitioner to obtain reasonable or limited assurance evidence that provides a basis for an opinion or conclusion. Rather, an agreed-upon procedures engagement involves the performance of the specific procedures that have been agreed upon with the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. The more a procedure requires professional judgment, **for example, when the procedures are more subjective**, the more the practitioner may need to consider whether ~~the condition that~~ the agreed-upon procedures **can be performed** and findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations ~~is present~~.

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, why?***

Response: While we do not object to not including independence as a precondition to performing an AUP engagement, we note that certain jurisdictions, including the United States, as part of the jurisdiction’s relevant ethical requirements, may require that the practitioner be independent when performing an agreed-upon procedures engagement.

- 4) ***What are your views on the enhanced requirements and application material on the independence disclosures in the AUP report? (Paragraph 30(f), 30(g) and A40-A42 of ED-4400)***

Response: We are supportive of the proposed transparency with respect to independence in the AUP report.

Findings

- 5) ***Do you agree with the term “findings” and related definitions and application material in paragraphs 13(f) and A10-A11 of ED-4400?***

Response: While we have no issue with the defined term and the application material, we understand that there were several concerns raised during the development of ED-4400. We feel that the definition could be omitted as the term *findings* is self-explanatory.

Engagement Acceptance and Continuance

- 6) ***Are the engaging party’s acknowledgment and the use of terminology that is clear, not misleading, and not subject to varying interpretations as set out in paragraphs 20-21 and A20-A29 of ED-4400 appropriate engagement and acceptance conditions?***

Response: No. As stated previously, we believe that ED-4400 creates a situation in which a common practice scenario becomes impractical or cumbersome. ED-4400 presupposes that the procedures to be performed are known at the beginning of the engagement. In an engagement in which the procedures are developed or revised as the engagement progresses, the practitioner would be required to amend the engagement letter. If the procedures are revised multiple times, the practitioner may be required to obtain numerous amended engagement letters. For example, while the engaging party may know the intended purpose of the engagement, that party may not know what procedures should be performed to satisfy that purpose at the beginning of the engagement. As part of the engagement, the engaging party may request that the practitioner develop, or assist in developing, the procedures. We believe that such a service would be in the public interest and could be addressed in ED-4400 with a few edits, as follows proposed new language is in ***boldface italics***; proposed deleted is in ~~strikethrough~~:

Engagement Acceptance and Continuance

20. Before accepting an agreed-upon procedures engagement, the practitioner shall determine that ***the agreed-upon procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.*** ~~the following conditions are present:~~ (Ref: Para. A20-A29)

- (a) ~~The engaging party acknowledges that the procedures to be performed are appropriate for the purpose of the engagement; and~~

- (b) ~~The agreed-upon procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.~~
21. Before accepting an agreed-upon procedures engagement, the practitioner shall obtain an understanding of the purpose of the engagement. The practitioner shall not accept the engagement if the practitioner is aware of any facts or circumstances suggesting that the procedures the practitioner is being asked to perform are inappropriate for the purpose of the agreed-upon procedures engagement. (Ref: Para. A26, A29)

Agreeing the Terms of the Engagement

22. The practitioner shall agree the terms of the agreed-upon procedures engagement with the engaging party. These terms shall include the following:
- (a) The nature of the agreed-upon procedures engagement, including a statement that the procedures to be performed ~~do~~ **will** not constitute a reasonable or limited assurance engagement and accordingly, the practitioner ~~does~~ **will** not express an opinion or conclusion;
 - ~~(b) Acknowledgement by the engaging party that the procedures are appropriate for the purpose of the engagement;~~
 - (c) The purpose of the engagement and the intended users of the agreed-upon procedures report as identified by the engaging party;
 - (d) Acknowledgement that the engaging party agrees to provide the practitioner, prior to the completion of the engagement, with a written acknowledgment regarding the appropriateness of the procedures for the intended purpose of the engagement.**
 - (e) Acknowledgment of the relevant ethical requirements with which the practitioner will comply in conducting the agreed-upon procedures and whether the practitioner is required to be independent;
 - (f) Identification of the subject matters on which the agreed-upon procedures will be performed;
 - ~~(g) The nature, timing and extent of the procedures to be performed;~~
 - (h) Reference to the expected form and content of the agreed-upon procedures report;
 - (i) Identification of the addressee of the agreed-upon procedures report.

- ~~23. Where the agreed-upon procedures are modified over the course of the engagement, the practitioner shall agree the amended terms of engagement with the engaging party to reflect the modified procedures. (Ref: Para. A30)~~
24. The practitioner shall record the agreed terms of engagement in an engagement letter or other suitable form of written agreement. (Ref: Para. A31)

As stated in our response to Question 1, if the procedures are known at the outset of the engagement, the written acknowledgment from the engaging party regarding the appropriateness of the procedures for the intended purpose of the engagement may be included in the engagement letter. However, if the procedures are developed or revised over the course of the engagement, the written acknowledgment may be included in an amended engagement letter, an addendum to the engagement letter, or other suitable form of written communication, as appropriate.

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?***

Response: Yes.

We believe that the requirement with respect to references to the use of the expert in an AUP report in paragraph 31 and the related application guidance in paragraph A44 is appropriate as the practitioner's expert is part of the engagement team.

AUP Report Restrictions

- 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? If not, why?***

Response: Yes.

However, the nature of an agreed-upon procedures engagement may be such that it is appropriate to obtain an acknowledgment that the procedures are appropriate for their purposes from parties in addition to the engaging party. For example, if the engagement is performed pursuant to a contract or regulation, the practitioner may determine it appropriate to confirm with the other parties to the contract or with the regulator that the procedures performed are appropriate for their purposes. To address such engagement circumstances, we propose that paragraph 22(d) from our proposed revision pursuant to

our response to Question 6 should be further revised as follows (additional wording is in ***boldface italics***):

(d) Acknowledgement that the engaging party agrees to provide the practitioner, prior to the completion of the engagement, with a written acknowledgment regarding the appropriateness of the procedures for the intended purpose of the engagement. ***In circumstances in which parties in addition to the engaging party will be requested to acknowledge that the procedures are appropriate for their purposes, the agreed-upon terms of the engagement should include an identification of such parties.***

Request for General Comments

9) ***In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:***

(a) ***Translations—recognizing that many respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-4400.***

(b) ***Effective Date—Recognizing that ED-4400 is a substantive revision and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for AUP engagements for which the terms of engagement are agreed approximately 18-24 months after the approval of the final ISRS. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISRS. Respondents are also asked to comment on whether a shorter period between the approval of the final ISRS and the effective date is practical.***

Response: While we do not believe that the proposed effective date is inappropriate, it would be in the public interest for the clarified, enhanced, and modernized standard to be effective earlier. We would propose that the effective date instead be 12-18 months after the approval of the final ISRS.

Other Comments

Paragraph 13 — Previous drafts of the proposed revisions to ISRS 4400 included the following definition of *responsible party*:

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Responsible party – The party(ies) responsible for the information on which the agreed upon procedures are performed.

The defined term is not included in paragraph 13 of ED-4410. However, it is important, especially given the requirements and report consequences with respect to independence, that the practitioner understand the role of the responsible party. The term is used in ED-4400 so it is appropriate to define and we recommend that the definition be included in the proposed standard.