

# Supplement L to Agenda Item 5

## RESPONSES RECEIVED ON THE DISCUSSION PAPER

### EXPLORING THE DEMAND FOR AGREED-UPON PROCEDURES ENGAGEMENTS AND OTHER SERVICES, AND THE IMPLICATIONS FOR THE IAASB'S INTERNATIONAL STANDARDS

#### COMMENTS TO QUESTION 11

**Note:** This supplement has been prepared for information only. A comprehensive summary of the significant comments received on the November 2016 Discussion Paper, *Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards* and related analyses of significant issues are presented at the [September 2017 IAASB meeting](#). All comment letters on the Discussion Paper can be accessed [here](#).

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

| #   | Respondent          | Comments   |
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| <b>Those Charged with Governance</b>        |                     |  |
| 1.  | IIA SA              | We believe the 3 approaches cover the relevant options.  |
| <b>Regulators and Oversight Authorities</b> |                     |  |
| 2.  | EUROPEAN COMMISSION | The third approach could be combined with the first one, in a way that mitigates the disadvantage of the first approach and limits both, the number of engagements not accepted, and the cases of conflicts of responsibilities.   |
| 3.  | IRBA                | 11.1 No.   |
| <b>National Auditing Standard Setters</b>   |                     |  |
| 4.  | AASB-CNAC           | <p>We did not identify any other approaches that the Working Group should consider. However, if the Working Group rejects the third approach, we are of the view that the first approach should be taken. In our view, it is important that the AUP standard either requires:</p> <ul style="list-style-type: none"> <li>• The practitioner to agree with the entity the specified parties who will receive the AUP report and that the entity will restrict the distribution of the AUP report to those specified parties; or</li> <li>• The AUP report to include a statement to the effect that the report is intended solely for the specific users and may not be suitable for any other purposes.</li> </ul> |

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|     |            | The absence of any requirements could result in potentially misleading AUP reports as readers who are unaware of the context for the AUP could misinterpret the results of those procedures.  |
| 5.  | AUASB      | <p><i>Combined answer to question 9, 10 and 11</i></p> <p>The AUASB has clearly made a distinction between use of an AUP report and distribution of such a report, this distinction was deliberately included in the requirements of ASRS 4400 Agreed-Upon Procedures Engagements to Report Factual Findings by the AUASB. The purpose of the distinction is not to prevent distribution of a report per se, but to deter use of that report by those other than the intended users which are identified in the terms of engagement. Reliance on that report is then effectively restricted to the intended users identified, even if the report is distributed to other parties.</p> <p>ASRS 4400 is clear about restricting use of an AUP report in order to bridge an expectation gap that may arise between the information contained in an AUP report and extent of the reliance which the user places on that report. As an AUP report does not provide a conclusion, no assurance can be taken from the report and the factual findings reported need to be considered in combination with other information in order for users to draw their own conclusions with respect to the subject matter.</p> <p>The relevant requirements of ASRS 4400 are:</p> <p>“42. Use of the report shall be restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as intended users in the engagement letter since others, unaware of the reasons for the procedures, may misinterpret the results.</p> <p>43. The report of factual findings for an agreed-upon procedures engagement shall contain: (Ref: Para. A18-A19)</p> <p>(n) a statement that use of the report is restricted to those parties identified in the report, who have agreed to the procedures to be performed or were identified in the terms of the engagement;”</p> <p>It is important to note that classes of users can be anticipated in the engagement letter and report, rather than necessarily identified individually at the time of issuing the report. This is explained in ASRS 4400 paragraph A12, and is appropriate where “the assurance practitioner is satisfied that those users will understand the purpose for which the report of factual findings in intended to be used”. Any amendments to the standard would need to consider the growing use of on-line reports and hence the increased distribution of such reports.</p> <p>Based on the above, the AUASB is supportive of Option c of paragraph 44 of the discussion paper.</p> |
| 6.  | CNCC-CSOEC | No, we have not identified any other approach that the Working Group should consider.   |
| 7.  | FAP        | NO RESPONSE   |
| 8.  | HKICPA     | No further comments.  |
| 9.  | IDW        | As noted above, we do not believe that not requiring an alert is a viable option, and that application material on potential restrictions on distribution or use would be appropriate. For these reasons, we do not believe that any other approaches can reasonably be considered.   |
| 10. | JICPA      | We do not have any specific comments.   |
| 11. | MAASB      | The AASB is not aware of other approaches that the Working Group should consider.   |

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| 12.                     | NBA     | A combination of a restriction and a statement in the report (approach a and c). In the statement we explain the restriction. This statement is intended for parties who get a report (probably by law) although they are not the intended users.<br>See Appendix 1, par. 27c, 28c, 34n, 34o, 35, A24 See Appendix 2  |
| 13.                     | NZAuASB | The NZAuASB has not identified any other approaches that the Working Group should consider.   |
| <b>Accounting Firms</b> |         |   |
| 14.                     | BDO     | We did not identify additional approaches that should be used in restricting the AUP report.  |
| 15.                     | CHI     | We have nothing to add.   |
| 16.                     | DTTL    | No additional comments.   |
| 17.                     | EYG     | <p><i>Combined answer to question 10 and 11</i></p> <p>We agree that the requirement in ISRS 4400 to include a statement that restricts the distribution of the report to those parties that have agreed to the procedures to be performed should be revisited in light of the current environment. We agree that AUP reports are provided to parties that are not signatories to the engagement agreement, such as regulators, particularly when the agreed-upon procedures are prescribed under law or regulation.</p> <p>First, we believe that the requirement in paragraph 18(g) of ISRS 4400 for the report to identify the purpose for which the agreed-upon procedures were performed is important to retain regardless of the approach taken related to restrictions on the report. We believe this information is critical for any users or recipients of the report.</p> <p>In regard to the approach that should be taken to restrict the AUP report, we do not support any of the three distinct options included in paragraph 44 of the Discussion Paper. Instead, we support an approach that requires a restriction on use to be included in the AUP report, but does not require, nor prohibit, a restriction on the distribution of the report.</p> <p>The AUP report should include, in our view, statements to the effect that:</p> <ul style="list-style-type: none"> <li>• The report is intended solely for the specified users for the purpose as set out in the report. The specified users should be named in the report and should only include the signatories to the engagement letter and any other parties that have been specifically identified in the engagement letter (refer to our response to Q9).</li> <li>• The practitioner disclaims responsibility to any party other than the specified users for any use or reliance on the report for any purpose.</li> </ul> <p>In summary, we believe it is important for the AUP report always to be clear that it was prepared for a specific purpose for specific users, but that distribution does not always need to be restricted to such users. However, should the practitioner deem it appropriate, or if it is required or customary in the jurisdiction to restrict the distribution of the report to only the specified users, then the practitioner may add a restriction on the distribution to the AUP report.</p> |
| 18.                     | GTIL    | <p><i>Combined answer to question 9, 10 and 11</i></p> <p>We believe that restriction on use and restriction on distribution should be considered separately and that restriction of distribution presents the larger challenge as discussed below.</p>   |

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|                                    |                    | <p>As it relates to restriction of distribution, there are both benefits and drawbacks to restricting the distribution of a report on an AUP engagement. If distribution of the AUP report is too restricted, for example to only those who are a party to the engagement letter, it may lose its usefulness and flexibility in different scenarios. Conversely, an AUP engagement that is widely distributed may become too high a risk for the practitioner to accept because, depending on the subject matter and the procedures performed, the engagement report may be misunderstood by the users of that report. We are of the view that an appropriate balance needs to be struck.</p> <p>We therefore support the second option presented in the Discussion Paper in respect of restricting the distribution of the AUP report We believe that an approach that neither requires nor precludes the practitioner from including restrictions on the AUP report would provide sufficient flexibility.</p> <p>ISRS 4400 could then provide guidance on matters that the practitioner may want to consider when determining how and if to restrict distribution of the AUP report, including:</p> <ul style="list-style-type: none"> <li>• Consideration of the subject matter on which the AUP engagement is being performed and the type of procedures being performed. Some subject matters may lend themselves to restriction whereas procedures that simply require the agreement of information to an underlying report may be appropriate for wider distribution.</li> <li>• Whether local law or regulations require restriction of the report</li> <li>• Whether limiting the distribution of the AUP report to those parties identified in the engagement letter, rather than requiring parties to be signatories to the engagement letter, may provide an appropriate level of restriction.</li> </ul> <p>As it relates to restriction on use, we are of the view that the third option, requiring "the AUP report to include a statement to the effect that the report is intended solely for the specific users and may not be suitable for any other purposes...;" could be adapted. The statement could be used to indicate the purpose for which the AUP report was prepared (not specifying the report is intended for specific users as suggested in the document) and to indicate it may not be suitable for another purpose. Alerting users in this way could also be used in conjunction with the restriction on distribution, above.</p> |
| 19.                                | KINGSTON SMITH LLP | No, we believe the third option is appropriate.  |
| 20.                                | KPMG               | <p><i>Combined answer to question 9, 10 and 11</i></p> <p>While we believe it is important that reports with factual findings clearly explain that they are intended for specific users and may not be suitable for another purpose, we also believe that there should be some flexibility in whether this is achieved via a restriction on use and/or distribution. The flexibility should depend on the specific circumstances of the engagement, including the requirements of the relevant jurisdiction and also nature of the procedures to be performed and the granularity with which the procedures and findings are described in the report. Accordingly, we are supportive of option (c) of paragraph 44 in the DP.</p>  |
| 21.                                | PKFI               | None to note   |
| 22.                                | PwC                | No.  |
| 23.                                | RSM                | We have no other suggestions.  |
| <b>Public Sector Organizations</b> |                    |  |

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| 24.   | AUDIT NEW ZEALAND | We have not identified any additional approaches for the Working Group to consider.   |
| 25.   | CIPFA             | NO RESPONSE   |
| 26.   | PAS               | None, approach (c) appears reasonable consider?   |
| <b>Member Bodies and Other Professional Organizations</b> |                   |   |
| 27.   | ACCA              | No further comments.  |
| 28.   | AE                | We have not identified any other approach that the Working Group should consider  |
| 29.   | AICPA             | <i>Combined answer to question 10 and 11</i><br>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.<br>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). |
| 30.   | ASSIREVI          | N/A   |
| 31.   | CAANZ             | Note our response to Question 10.   |
| 32.   | CAI               | Refer to response to Q.10 above.  |
| 33.   | CPAA              | We have not identified any other approaches.  |
| 34.   | EFAA              | No comment.   |
| 35.   | FACPCE            | No other approach provides the simplicity of the discussed approaches. Other approaches require the involvement of the practitioner consenting the distribution.  |
| 36.   | FAR               | FAR has not identified any other approaches that the Working Group should consider.   |
| 37.   | FSR               | We have not identified any other approaches that the Working Group should consider.   |
| 38.   | IBR-IRE           | We have not identified any other approach for the Working Group to consider.  |
| 39.   | ICAEW             | <i>Combined answer to question 10 and 11</i>  |

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|     |       | <p>28. We consider that option (c) requiring the AUP report to include a statement to the effect that the reporting is intended solely for the specific users and may not be suitable for any other purposes is a practical way to manage the risk to the practitioner and can be applied across a broad range of AUP engagements.</p> <p>29. But we also consider that options (a) and (c) are not mutually exclusive and that it is essential that they are not seen as such because in some AUP engagements (a) may be used in conjunction with (c) by practitioners. There should, therefore, be an element of flexibility in that option (c) should be required in any event but that, for example, option (a) may be explored further by practitioners as part of their risk management approach.</p> <p>30. We are not aware of other approaches to this that the IAASB should consider.</p> |
| 40. | ICAG  | We don't have any issues in mind.   |
| 41. | ICAS  | We have not identified any other approaches that the Working Group should consider.   |
| 42. | ICASL | It's recommended to consider the most appropriate approach set out in 44 c) paragraph without deviating to any other approach.  |
| 43. | ICAZ  | In our view there are no other approaches that the Working Group should consider.   |
| 44. | ICPAU | To consider including, in the first approach, a provision for the entity to seek permission for the practitioner, should there be a party, not initially agreed, to access the report.  |
| 45. | ISCA  | NO RESPONSE   |
| 46. | KICPA | No comment.   |
| 47. | MICPA | None.   |
| 48. | NASBA | <p>The standard should contain a condition that a practitioner would not accept, or would withdraw from the engagement, if he/she becomes aware that the client intends to encourage or facilitate the use of the AUP report by parties other than the intended parties.</p> <p>Additionally the standard should contain guidance for the professional accountant to consider if he/she believes the intent of the AUP engagement is to mislead or confuse the intended party about the results of the AUP.</p>   |
| 49. | SAICA | The vast majority of survey respondents (94%) were of the view that there are no other approaches that should be considered.  |
| 50. | SAIPA | In our view option C covers the use of the report and offers sufficient protection to the practitioner.   |
| 51. | SMPC  | <p><i>Combined answer to question 10 and 11</i></p> <p>We agree with the Working Group's view that the third approach achieves an appropriate balance between addressing the concern regarding unintended parties misinterpreting findings, while allowing the AUP report to be made more widely available. In our view, this would be a suitable solution that addresses the practical demands of clients, avoids misinterpretation of the AUP report and clearly segregates the responsibilities of the practitioner, client and user of the report.</p> <p>The SMPC is not aware of other approaches to this that the Working Group should consider.</p>   |

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| 52.                           | WPK           | AUP report restrictions need to be considered in the context of legislation and jurisdiction (especially liability regime and general terms and conditions) on the national level. |
| <b>Individuals and Others</b> |               |  |
| 53.                           | 14000REGISTRY | No comment.  |
| 54.                           | ANA           | We are not in a position to offer a meaningful comment.  |