March 7, 2019

International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue
New York, NY 10017

Via website: www.iaasb.org

Re: Exposure Draft – Proposed International Standards on Related Services 4400 (Revised) – Agreed-Upon Procedures Engagement

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments on the Proposed International Standards on Related Services 4400 (Revised) – Agreed-Upon Procedures Engagement (Exposure Draft). NASBA’s mission is to enhance the effectiveness of the licensing authorities for public accounting firms and certified public accountants in the United States and its territories. Our comments on the IAASB’s Exposure Draft are made in consideration of the Boards’ of Accountancy charge as regulators to promote the public interest.

In furtherance of that objective, NASBA offers the following comments on the questions as presented in the Exposure Draft.

Request for Comment 1: Public Interest Issues Addressed in ED-4400

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

Yes, we believe that the ED-4400 has been appropriately clarified and modernized. However, we submit comments on the specific topics presented in the Exposure Draft for consideration to address certain public interest issues.

Request for Comment 2: Professional Judgment

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?
Yes, we support the approach of modeling the definition of professional judgment from ISAE 3000. We also found the examples provided in the application material helpful.

**Request for Comment 3: Practitioner’s Objectivity and Independence**

*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, under what circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the IAASB would discuss the relevant independence considerations with the IESBA?*

As we have previously commented to the Agreed-Upon Procedures Working Group, the Agreed-Upon Procedures (AUP) engagement in the United States is considered an attest engagement as provided in the current AICPA Statement on Standards for Attestation Engagements No. 18 - Agreed-Upon Procedures Engagements and the Uniform Accountancy Act. Thus, in our view, the practitioner should be independent. AUP report users may include external parties such as banks, creditors, regulators and others that may require, expect and/or assume the practitioner to be independent. Investors or other providers of capital often request an entity to have an AUP engagement performed in lieu of an audit. The practitioner’s independence is a significant differentiator that enhances the value of AUP services to users via greater credibility and reliability in the practitioner’s findings.

A precondition for the practitioner to be independent would be appropriate for an AUP report that could or would be distributed or made available to the public for general use. To say nothing in an AUP report available to the public that was prepared by a non-independent practitioner would not be in the public interest.

**Request for Comment 4: Practitioner’s Objectivity and Independence**

*What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the Explanatory Memorandum, and the related requirements and application material in ED-4400? Do you believe that the practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.*

Notwithstanding our response to the Request for Comment 3, if independence is not a requisite of performing an AUP engagement, then we believe that the disclosures about independence in the AUP report must be clear. The various scenarios described in the table on page 11 of the Explanatory Memorandum would be helpful to include in the final standard.

We believe that the practitioner should be required to make an independence determination in every case, even if not required, and such position should be disclosed.
The table and paragraph 30(f)(ii)(a) provide that if the practitioner is not required to be independent by relevant ethical requirements, terms of the engagement, or other reasons, that the practitioner does not have to determine independence and can simply state that the practitioner is not required to be independent. This position is not in the public interest.

A reader should be able to know whether or not a practitioner is independent. The degree of reliability, and possibly the credibility, that the reader attaches to an AUP report may differ between a report prepared by an independent practitioner and a non-independent one.

**Request for Comment 5: Findings**

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

Yes, we agree with the term “findings” and the related definitions. If the engagement letter and the AUP report specify that the engagement was conducted in accordance with ISRS 4400 (Revised), and ISRS 4400 (Revised) uses and defines the term “findings,” then we do not understand the need to include A11 in the application material. The use of “factual findings” could add confusion.

**Request for Comment 6: Engagement Acceptance and Continuance**

*Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED-4400, appropriate?*

We agree with the requirements and application material in paragraphs 20-21 and A20-29. However, we believe that there should be an additional requirement to assess whether the practitioner has the expertise and competence to perform the engagement.

**Request for Comment 7: Practitioner’s Expert**

*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 of ED-4400?*

We believe the evaluation criterion described in paragraph 28 should be expanded for considerations when a practitioner utilizes an internal versus an external expert. For example, the situation in which the practitioner is not independent and utilizes an internal expert could be problematic in complying with certain ethical requirements such as objectivity.
Request for Comment 8: AUP Report

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, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?

No, we believe that the use and distribution of an AUP report should be restricted. A43 states that it is the practitioner who may consider it appropriate to indicate that the AUP report is intended solely for the engaging party and the intended users. The Exposure Draft implies that AUP reports would not be restricted unless the practitioner decides to restrict the report. This position is not in the public interest.

As the exposure draft does not require that the report be restricted to use by the intended parties, we are concerned about the risk of unintended reliance on the adequacy of the procedures performed by the practitioner. Accordingly, when a report is not restricted, we believe the application material in paragraph A43 that the practitioner may indicate in the report that the agreed-upon procedures report is intended solely for the engaging party and the intended users should be a requirement.

Request for Comment 9: AUP Report

Do you support the content and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 2 of ED-4400? What do you believe should be added or changed, if anything?

As stated in the response to Request for Comment 4, we believe that the practitioner should first determine if he or she is independent. If independent, the report should so state.

To state in the report that the practitioner is not required to be independent is not in the public interest. The practitioner should make a determination of independence in every case, even if not required, and such position should be disclosed.

Request for Comment 10: General Comments

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
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 practicable.

(a) We have no comment on the potential translation issues for the final ISRS.

(b) The effective date of the standard should be timely enough for the practitioner to sufficiently consider and implement. In consideration of those situations in which national due process and translation are needed, it seems that up to 24 months after the approval of the final ISRS would be more than adequate. We support the notion that early application would be permitted and encouraged.

Notwithstanding the desirability of early implementation, there are some risks attendant to early implementation, especially in light of the concerns we have raised above regarding differences among the proposed ISRS 4400 revision and other standards on issues such as objectivity and independence, and the degree to which AUP services are attest services. In particular, the other standards include not only those developed by the Auditing Standards Board and the Public Company Accounting Oversight Board, but also the rules on objectivity and independence adopted, interpreted and enforced by the U.S. State Boards of Accountancy.

Another consideration in the implementation of the proposed ISRS is that most states have statutory or constitutional limits on the manner of adoption by reference. Typical of those limitations is a requirement that an agency may only adopt a specific, extant version of standards. For example, Michigan Rule 102(1)(d) provides:

The auditing standards issued by the International Auditing and Assurance Standards Board (IAASB), 529 5th Avenue, New York, NY 10017, in the publication entitled "Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Pronouncements" 2015 edition, and any related pronouncements issued as of the effective date of this rule, which are available at cost from the IAASB's website at: http://www.ifac.org/publications-resources/2015-handbook-international-quality-controlauditing- review-other-assurance.

The Michigan Rules also state that: “A licensee shall comply with the applicable standards adopted in subrule (1) of this rule.” Although the recent trend favors more generic adoptions by reference, it often takes two years for a state to implement a rule change. We do not presume that these issues necessarily rise to the level of license threatening disciplinary cases, but the potential is there and might arise in private litigation.
In light of substantive differences between not only different sets of standards, but also between different versions of the same standards, we believe that it might be worthwhile for IAASB to clarify implementation by reminding those who use the international standards that in most U.S. jurisdictions, the rules also require that whenever other standards differ with the state’s rules on objectivity and independence, the state’s rules take precedence. (See, e.g., Mass. Rule 252 CMR 3.00, other standards apply only “to the extent that the applicable provisions thereof do not conflict with [this state’s] Code and Rules.”)

Other Matters:

We offer the following general comments on the Exposure Draft:

- Consider adding a definition of “responsible party.” This term is used in A38 and in other places in the Exposure Draft.

- Paragraph 22(a) makes reference to a “reasonable…assurance engagement.” A practitioner may not be familiar with this term in international standards. Consider adding this definition as well.

- In the “documentation” application guidance of A46, consider adding a statement that the practitioner should document the conclusion as to when the report scope was not limited in distribution. It is important that this is appropriately considered and documented by the practitioner to ensure that the work product has the correct disclosure in this area.

* * *

We appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,

Janice L. Gray, CPA  
NASBA Chair

Ken L. Bishop  
NASBA President and CEO