

MILES CPA REVIEW
AUD - Q4 2021 - CONTENT UPDATES

Summary of Updates:

- **AUD-7.2 - Agreed-Upon Procedures Engagements**
- **AUD-1.1 - Amendments to PCAOB interim independence standards**
- **Updates & Errata**

AUD-7.2 (I) - Agreed-Upon Procedures Engagements

Background:

Quoting Bob Dohrer, CPA, AICPA Chief Auditor - "In today's increasingly complex business environment, there is a great and apparent need for auditors' expertise in rapidly evolving subject matters. By allowing the practitioner to assist in developing procedures, not requiring an assertion by a responsible party and permitting general-use reports, the agreed-upon procedures (AUP) services delivers enhanced value and relevance to report users."

Summary of Changes [applicable **only for AUP engagements**]:

- Removes the requirement that the CPA practitioner request an assertion from the responsible party
- Permits the practitioner to issue a general-use report
- No longer requires intended users to take responsibility for the sufficiency of the procedures
- Allows procedures to be developed over the course of the engagement and allows the practitioner to develop or assist in developing the procedures with a requirement that the engaging party acknowledge the appropriateness of the procedures prior to the issuance of the practitioner's report

Pages impacted by the change:

- Pg A7-22 to be replaced with the following 2 pages
- Slight changes on Pgs A7-18 & A7-19 [annotated/marked in purple color on the 5th & 6th pages of this update document]

Examination or Review = CPA decides procedures

AUP = Client decides procedures. CPA performs these "agreed" procedures & reports findings

I) Agreed-Upon Procedures (AUP) Engagements

- AUP - Engagement in which a practitioner performs specific procedures on subject matter and reports the findings without providing an opinion or conclusion
 - Since engaging party best understands its own needs, the engaging party is required to agree to the procedures and acknowledge that the procedures performed are appropriate for the intended purpose of the engagement prior to issuance of the practitioner's AUP report
 - ✓ Engagement circumstances may be such that it is appropriate for parties in addition to the engaging party to agree to the procedures and acknowledge that the procedures performed are appropriate for their purposes
 - ✓ The engaging party & intended users assess for themselves the procedures & findings reported by the practitioner and draw their own conclusions

- May be performed provided following conditions exist: {ASSURE the practitioner that AUP is ok}
 - General standards for all attestation engagements = TIP + Know Criteria

- A** • **Agreement of Parties** - Practitioner and engaging party must agree on terms of engagement
 - ✓ Nature of the engagement
 - ✓ Identification of the **subject matter** and the **responsible party**
 - ⇒ Need to include a statement that responsible party is responsible for the subject matter
 - ⇒ Need to include a statement that engaging party will provide a representation letter (at the conclusion of the engagement). If engaging party is not the responsible party, a statement that written representations may be requested from the responsible party
 - ✓ Responsibilities of the practitioner
 - ✓ **Procedures to be performed** (whereby engaging party needs to acknowledge appropriateness of procedures)
 - ✓ Any threshold limits for reporting exceptions if established by the engaging party

- S** • **Subject Matter** - Responsibility of engaging party or the engaging party is able to provide evidence that a third party is responsible
 - ✓ Procedures to be applied to the subject matter should be expected to result in **reasonably consistent findings** using the criteria

- S** • **Statement for Appropriateness of the Procedures** – On the terms of the engagement, need to include a statement that the engaging party agrees to provide the practitioner, prior to the completion of the engagement, with a written agreement and acknowledgment that the procedures performed are appropriate for the intended purpose of the engagement
 - ✓ Note: Procedures may be developed over the course of the engagement and it is ok for the practitioner to develop or assist in developing the procedures (provided the engaging party acknowledges the appropriateness of procedures)

- U** • **Use of the Report can be General OR Restricted** to specified parties
 - ✓ Restricted use no longer mandatory. However, **based on the circumstances of the engagement**, the practitioner may consider it appropriate to include an alert (in a separate para) that restricts the use of the AUP report. Examples of such situations: **ICDL**
 - ⇒ Engaging party requests that the use of the report be restricted
 - ⇒ When AUP are performed on compliance with aspects of contractual agreements, may restrict the use of the report to the parties to the contract/agreement

- ⇒ When AUP are performed to comply with regulatory requirements, may restrict the use of the report to the engaging party and the regulator
- ⇒ When AUP are performed relating to certain subject matter, may restrict the use of the report to parties that are known to understand the subject matter
- ⇒ When procedures that the practitioner is engaged to perform are prescribed (and practitioner does not have the ability to perform or design additional procedures), may restrict the use of the report to those parties that prescribed the procedures

- R** • **Responsibility of Practitioner** - Practitioner responsible for **performing agreed-upon procedures and report findings** (as per AICPA's SSAE)
 - ✓ Should not use vague or ambiguous language, or terms of uncertain meaning. For instance:
 - ⇒ NOT OK - Terms like General review, limited review, check, test, review, examine, interpret, verify, evaluate, analyze, note (unless the actions are defined to indicate the nature, timing, and extent of the procedures associated with these actions)
 - ⇒ OK (Acceptable Actions) – Inquire, inspect, observe, trace, confirm, compare, agree, recalculate, mathematically check

- E** • **Engagements relating to prospective F/S** must include a summary of significant assumptions Pg
A7-23

➤ **Sample Report on AUP engagement:**

Independent Accountant's Report on Applying Agreed-Upon Procedures

[Appropriate Addressee]

We have performed the procedures enumerated below on [identify the subject matter, for example, the accompanying Statement of Investment Performance Statistics of XYZ Fund for the year ended December 31, 20X1]. [The responsible party, for example, XYZ Fund] is responsible for [the subject matter].

[The engaging party, for example, XYZ Fund] has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of [identify the intended purpose of the engagement, for example, assisting users in understanding the Statement of Investment Performance Statistics of XYZ Fund for the year ended December 31, 20X1]. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes

The procedures and the associated findings are as follows:
[Include paragraphs to describe the procedures performed detailing the nature and extent, and if applicable, the timing, of each procedure and to describe the findings from each procedure performed, including sufficient details on exceptions found.]

We were engaged by [the engaging party, for example, XYZ Fund] to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the AICPA. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on [identify the subject matter, for example, the accompanying Statement of Investment Performance Statistics of XYZ Fund for the year ended December 31, 20X1]. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of XYZ Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

[Additional paragraphs may be added to describe other matters.]

[Signature of the practitioner's firm]
[City and state where the practitioner's report is issued]
[Date of the practitioner's report]

→ Client responsible for appropriateness, CPA for performance

→ CPA is responsible

Other Changes on the book:

Page A7-18: Limited use para for AUP not mandatory

		Examination	Review	AUP
Field P-C	Work performed?	Procedures comparable to audits of historical F/S	<u>Inquiry & Analytical procedures</u>	As " <u>agreed-upon</u> " by practitioner and client
Report I C D L	End result?	Expression of opinion based on reasonable assurance	Expression of conclusion based on limited assurance (negative assurance)	No assurance but procedures & findings are listed . Practitioner disclaims any responsibility for the sufficiency of the procedures
Report I C D L	Limited use?	- <u>Criteria not suitable/ available</u> - <u>Written assertion not provided if engaging party (client) is not the responsible party</u>		Mandatory Can be General use or Limited use (based on the circumstances of the engagement)

Page A7-19:

Responsible party - Party responsible for the subject matter

Engaging party - Party that engages the CPA for the attest engagement

Often, Responsible party = Engaging party

- **Written assertion required** - An attest engagement is predicated on the concept that a responsible party makes an assertion about whether the subject matter is measured or evaluated in accordance with suitable criteria. Therefore, it is required for practitioner to request a **written assertion from the responsible party** (ok if the written assertion is included in an engagement letter, representation letter, alongside presentation of the subject matter or in the notes, etc.)
 - ✓ Examination & Review Engagements - If responsible party refuses to provide a written assertion, practitioner should withdraw

Except: 1.

⇒ Need not withdraw if engaging party ≠ responsible party [in this case, disclose the refusal in the attest report and restrict use of the report to the engaging party]

- 2. ✓ ~~For AUP engagements, responsible party's refusal to provide a written assertion requires the practitioner to disclose that refusal in the report~~ **Not required for AUP engagements**

- **Written representation letter required**

- ✓ **From responsible party**

Except: ⇒ Not mandatory if engaging party ≠ responsible party, in which case, practitioner would seek oral responses from responsible party and, if found ok, would restrict the use of attest report to the engaging party [~~note: in case of AUP, the use of report is anyways restricted~~]

- ✓ **From engaging party** (if engaging party ≠ responsible party) wherein the engaging party acknowledges that the responsible party is responsible for the subject matter & assertion

AUD-1.1 - Amendments to PCAOB independence standards:

Summary of Changes [applicable for auditors of issuers only]:

- **Pg A1-8** - Amendments to rules for loans from financial institution clients which is ok:
 - “Grandfathered loans” [home loans, secured loans, loans immaterial to CPA].
 - ✓ **Amendment** - For auditors of issuers, grandfathering to also apply for student loans
 - Overdraft or credit card balances upto \$10,000 after payment as of each due date
 - ✓ **Amendment** - For auditors of issuers, also include consumer loans which is ok [but combined limit remains at \$10K]

Updates & Errata:

- **Pg A1-10** - Edit as below

- ✓ Internal audit assistance services or “internal audit outsourcing”

⇒ ~~Ok. Internal audit work within the scope of the F/S audit~~

Ok: May assist the internal audit function in performing preliminary audit risk assessments, preparing audit plans, and recommending audit priorities

- **Pg A1-13** - Edit as below

➤ **Contingent Fees** - Applies to members in public practice (Part 1)

1. Can't charge contingent fees from clients for whom the member performs:

- Contingent fee is dependent upon the finding or result attained; ~~specifically prohibited for~~
 - ✓ Audit or Review of F/S
 - ✓ Examination of prospective F/S
 - ✓ Compilation of F/S (if 3rd parties to use F/S and CPA's lack of independence not disclosed)

2. Can't charge contingent fees for:

- ✓ Tax engagements to prepare an original/amended tax return or claim for a tax refund

- **Pg A1-13** - Add a bullet

- Exceptions (no client consent needed): {Remember that CPAs need to do an **IRIS** scan before showing confidential client info to outsiders}

- ✓ Investigation authorized by AICPA, a state CPA society, or a State Board of Accountancy
- ✓ Review of professional practice (Quality Review) by AICPA or a state CPA society
- ✓ Inquiry by AICPA, a state CPA society, or a State Board of Accountancy
- ✓ Subpoena or summons from a valid judicial authority

⇒ Allowed to disclose client info (without client's consent) in response to a subpoena/summon since info is only confidential, but not privileged as in case of attorney-client relationship

Besides the IRIS exception, no client consent is needed even in the below case [LIPS]:

- ✓ **Litigation** - Disclosing info necessary to initiate, pursue, or defend the member in an actual or a threatened lawsuit or alternative dispute resolution proceeding
- ✓ **Insurance carrier** - Liability insurance carrier solely to assist in the defense against an actual or a potential claim against the member
- ✓ **Prospective buyer of practice** provided there is a contractual confidentiality/non-disclosure agreement
- ✓ **Service provider (third-party)** provided there is a contractual confidentiality/non-disclosure agreement

So the "exception" mnemonic (whereby confidential client info can be shared without client consent) can now be expanded to say - IRIS LIPS!

- Pg A3-39** - Add a bullet towards the end of the page

 - ✓ Note: The fact that a user entity uses a service organization does not alter the user auditor’s responsibility to obtain sufficient appropriate audit evidence to afford a reasonable basis to support the user auditor’s opinion. Therefore, the user auditor should not make any reference to the service auditor’s report as a basis, in part, for the user auditor’s opinion on the user entity’s F/S

 - However, when the user auditor expresses a modified opinion because of a modified opinion in a service auditor’s report, the user auditor is not precluded from referring to the service auditor’s report if such reference assists in explaining the reason for the user auditor’s modified opinion. In such circumstances, the user auditor need not identify the service auditor by name and may need the consent of the service auditor before making such a reference**

- Pg A4-24** - Errata

 - **C > E for A/P - Completeness is generally more relevant** than Existence in the ~~revenue~~ **expenditure** cycle because the **risk of understatement of A/P and purchases (i.e., Completeness compromised) is high** whereas the risk of overstatement of A/P and purchases (i.e., Existence compromised) is low

- Pg A4-38** - Errata

 - Understanding allocation of Investments in ~~marketable~~ **debt** securities (Trading, AFS, HTM) - Auditor should inquire of management and obtain written representation regarding their intent/ability for classification

	Trading securities	Available for sale (AFS) securities	Held to maturity (HTM) securities
B/S: Classification Investments in Valuation Unrealized Gain/Loss	Current only Debt/equity FMV	Current/non current Debt FMV *Included in OCI	Non-current only Debt Amortized cost
I/S: Forms of Income Realized Gain/Loss Unrealized Gain/Loss	Interest/Dividend Included Included	Interest Included *Included in OCI	Interest Included
Cash Flow: Classification	Operating activity	Investing activity	Investing activity

* Journal entry for unrealized gain/loss:
 Allowance for Increase XXX
 Unrealized Gain (at year-end) XXX (**Trading** - I/S, **AFS** - B/S as part of OCI)

- **Pg A6-22 - Errata**

Adverse Opinion

In our opinion, **because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph**, the consolidated financial statements referred to above **do not** present fairly the financial position of ABC Company and its subsidiaries as of December 31, 20X1, or the results of their operations or their cash flows for the year then ended **in accordance with accounting principles generally accepted in the United States of America.**

- **Pg A6-94 - Errata**

- **Illustration of Auditor’s Report on Special purpose F/S prepared in accordance with regulatory basis (Not intended for General Use):**

<p>Report of Independent Registered Public Accounting Firm</p>
<p>To the shareholders and the board of directors of ABC Company [Appropriate Addressee]</p>
<p>We have audited the accompanying statements of admitted assets, liabilities, and surplus—statutory basis of XYZ Insurance Company as of December 31, 20X2 and 20X1, and the related statements of income and cash flows—statutory basis and changes in surplus—statutory basis for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.</p>
<p>We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.</p>
<p>As described in Note X, these financial statements were prepared in conformity with the accounting practices prescribed or permitted by the Insurance Department of [State], which is a comprehensive basis of accounting other than generally accepted accounting principles.</p>
<p>In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and surplus of XYZ Insurance Company as of December 31, 20X2 and 20X1, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note X.</p>
<p>This report is intended solely for the information and use of the board of directors and management of XYZ Insurance Company and [name of regulatory agency] and is not intended to be and should not be used by anyone other than these specified parties.</p>
<p>[Signature] [City and State or Country] [Date]</p>

- **Pg A7-5** - Add a bullet

- **No formal report** issued

- However, need to include a **statement on each page of the F/S indicating that “no assurance is provided”** on the F/S. If unable to include a statement on each page of the F/S, the accountant should either

- ✓ Issue a disclaimer that makes it clear that no assurance is provided on the F/S, or

The accompanying financial statements of XYZ Company as of and for the year ended December 31, 20XX, were not subjected to an audit, review, or compilation engagement by us and accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them.

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date]

- ✓ Perform a compilation engagement **or**

- ✓ **Withdraw from the engagement and inform management of the reasons for withdrawing**

- **Pg A7-7** - Spelling mistake

Key elements in the Standard Compilation report: {Compilation report = **CON MAN**}

- ✓ Compilation engagement is performed
- ✓ Only ~~compiled~~^{compiled}, not audited or reviewed - Explicitly mentioned
- ✓ **No** opinion or assurance on F/S - Explicitly mentioned
- ✓ **MAN**agement responsibility = F/S - Emphasize that F/S are responsibility of the management (not that of the accountant)

- **Pg A7-16** - Rephrase as per standards

SSAE No. 18 - Issued to clarify & revise SSAE effective for periods on or after May 1, 2017.

Attest standards are now codified with the prefix “AT-C” [where C stands for Clarity]

- ✓ Key objective of AICPA Clarity projects have been to converge with international standards. However, one major difference still exists between SSAE & international attest standards:

⇒ Under SSAE, a practitioner is **required to obtain a written assertion** (for examination & review engagements) ~~from the engaging party, except when engaging party is not the~~

~~responsible party~~ **from the responsible party, except when the responsible party ≠ engaging party**

⇒ This is not a mandatory requirement under international standards (ISAE)