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Ms. Phoebe W. Brown, Secretary
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

26 October 2022

Re: Request for information and comment on the application and use of the PCAOB's interim attestation standards

Dear Ms. Brown:

Ernst & Young LLP (EY) appreciates the opportunity to respond to the request for information and comment from the staff of the Public Company Accounting Oversight Board (PCAOB) on the application and use of the PCAOB's interim attestation standards.

We are pleased to provide our views and perspectives for consideration in response to certain questions included in the staff's request.

General views

We welcome the PCAOB staff's initiative to perform initial outreach to stakeholders to collect views on an approach for updating the PCAOB's interim attestation standards, including possible consolidation or elimination of certain standards.

If the PCAOB staff decides to recommend amending or replacing some or all of the interim attestation standards, we encourage it to collaborate with other standard-setters, such as the Auditing Standards Board (ASB) and the International Auditing and Assurance Standards Board (IAASB), and to identify ways to eliminate unnecessary differences in attestation standards. This will help promote consistent performance and enhance quality by auditors in the completion of attestation engagements.

Finally, we support eliminating individual attestation standards that are not and are not expected to be used in performing attestation engagements, if determined appropriate based upon the staff's outreach.

Use of attestation reports

Q1. Aside from regulatory bodies, who are the users of attestation reports and how do they benefit from these reports? Please provide details.

The population of users of attestation reports is diverse, given the wide spectrum of engagements to which attestation standards can be applied. That is, the subject of an attestation report can be any financial or nonfinancial information that an engaging party wants to present as vetted by an independent practitioner.

The most common users include:

- ▶ Investors who rely on environmental, social and governance (ESG) attestation reports and attestation reports on key performance indicators
- ▶ Financial statement auditors who rely on system and organization controls reports (SOC) 1 reports
- ▶ Customers who use SOC 2 reports
- ▶ Issuers/underwriters who rely on asset-backed security agreed-upon procedures (AUP)
- ▶ Companies who rely on examinations of internal controls, such as those over key performance indicators

Users of attestation reports benefit by having more confidence in the information presented as a result of the procedures performed by an independent practitioner.

Q2. Do users of attestation reports influence the type of attest engagements performed? If so, how? Please provide details.

Users' needs influence the types of attest engagements performed. The engaging party and the practitioner typically base their determination of users' needs on their experience (e.g., from other engagements) or direct interaction with one or more intended users.

Q4. Could changes to PCAOB attestation standards help to inform or protect investors? Please provide details.

We support the PCAOB's commitment to modernize its existing standards and consider amending, replacing or eliminating them since the attestation standards have continued in effect substantially as they were adopted in 2003. We observe, since that time, other standard-setters (e.g., ASB and IAASB) have completed standard-setting projects to update their attestation standards in response to the evolutions in the market and investor needs. Furthermore, when engagements are performed using the PCAOB interim attestation standards, they are also performed in accordance with the American Institute of Certified Public Accountants (AICPA) attestation standards,¹ which may be confusing to investors. Thus, we encourage the PCAOB to identify ways to eliminate unnecessary complexities in the reporting ecosystem, which is in the best interest of investors.

¹ Attestation engagements performed in the United States in accordance with the PCAOB interim attestation standards are not currently in the scope of the PCAOB's inspection program. The AICPA requires that these engagements are conducted in accordance with the AICPA attestation standards to make sure that they are in scope of the AICPA's Peer Review Program as a practice to promote and enhance the quality of auditor performance. As a result, and in accordance with the AICPA's Code of Professional Conduct, attestation engagements in the United States that are conducted in accordance with the PCAOB interim attestation standards are also conducted in accordance with AICPA attestation standards.

Current practice

Q5. What types of attest engagements are currently performed under PCAOB attestation standards? Please describe the circumstances under which these engagements are performed and the type of attestation provided (e.g., examination, review, or agreed upon procedures).

We are not aware of any attest engagements that are currently performed using only the PCAOB's attestation standards addressed in the PCAOB staff's request (i.e., excluding PCAOB Attestation Standards No. 1 and No. 2). Rather, as noted above, when engagements are performed under the PCAOB standards, they also are performed under the AICPA standards. The majority of US attestation engagements for registrants are currently performed under the AICPA standards alone.

The types of engagements that are performed under the PCAOB interim attestation standards include (as identified in the PCAOB's request):

- ▶ Assessment of compliance with the servicing criteria of Securities and Exchange Commission (SEC) Regulation AB
- ▶ AUP reports in accordance with Securities Investor Protection Corporation (SIPC) requirements

Q6. Are attest engagements being performed pursuant to AT 301, AT 401, or AT 701? If so, please describe the circumstances under which these engagements are performed, including the attestation standard used and the type of attestation provided (e.g., examination, review, or agreed-upon procedures). Are attest engagements being performed that apply the interpretations in AT 9101? If so, please describe the circumstances and nature of work performed.

We are not aware of attestation engagements being performed pursuant to AT 301, AT 401 or AT 701. We also are not aware of attestation engagements that apply the interpretations in AT 9101 being performed.

Q7. As described above, some regulators require attestation reports to be issued under PCAOB attestation standards. Do other organizations or entities require attestation reports issued under PCAOB attestation standards? If so, please provide relevant details, including the subject matter and the specific standards applied. Alternatively, are there specific circumstances in which firms have chosen to voluntarily perform attest engagements under PCAOB attestation standards? If so, please provide relevant details.

We are not aware of other organizations or entities that require attestation reports issued under PCAOB attestation standards, other than those that the PCAOB staff is currently aware of, as outlined in its request.

Potential updates to requirements

Q8. Are specific improvements needed to PCAOB attestation standards, including as currently used or for anticipated future uses? If so, please describe the needed improvements.

We believe that improvements to PCAOB interim attestation standards that are informed by completed projects of other standard-setters and strive to reduce unnecessary differences in the attestation standards would benefit the public interest.

Therefore, we believe that if the PCAOB decides to amend or replace the standards (as opposed to eliminating them), it may want to consider the following:

- ▶ Modifying the structure of its interim attestation standards, so that the standards comprise a general standard relating to all attestation engagements, a separate level of service standard for each level of service (i.e., examination, review and AUP engagements) and subject-matter standards that build on the level of service standards
- ▶ Adding a requirement for the practitioner to request a written assertion from the responsible party for examination and review engagements

Requiring the practitioner to obtain a written assertion from the responsible party for review and examination engagements would be consistent with the requirement to obtain such an assertion under the PCAOB's Attestation Standards No. 1 and No. 2. It also would be consistent with the broadly understood and accepted reporting structure under which a party other than the practitioner is responsible for the subject matter being measured or evaluated in accordance with the suitable criteria, and the practitioner then obtains either reasonable or limited assurance over the assertion or the subject matter.

We also recommend that the PCAOB consider additional changes depending on the type of attestation engagements that the PCAOB expects its standards to be used for in the future.

For example, if the PCAOB expects the standards to be used when conducting SOC 1 examinations of controls at a service organization relevant to an SEC registrant's internal control over financial reporting, it may consider developing a subject-matter standard related to examinations of controls. Further, if the PCAOB expects its interim attestation standards to be used for AUPs of SEC registrants' disclosures in SEC filings (e.g., AUPs over ESG information or key performance indicators), it may consider making significant changes to AT 201, *Agreed-Upon Procedures Engagements*, such as the following:

- ▶ Permitting the practitioner to issue a general use report
- ▶ Requiring the practitioner to obtain a letter of representations from the engaging party
- ▶ Eliminating the requirement for intended users of the practitioner's AUP report to agree to the procedures and take responsibility for the sufficiency of the procedures for their purposes
- ▶ Allowing procedures to be developed over the course of the engagement and allowing the practitioner to develop or assist in developing the procedures with a requirement that the engaging party acknowledge the appropriateness of the procedures before the issuance of the practitioner's AUP report

Q9. Is the work of others, including that of specialists and internal auditors, commonly used in performing attest engagements? If so, please describe the relevant circumstances, the nature of the work performed, and how it is used.

Based on our experience, there are limited situations in which the work of others, including that of specialists and internal auditors, is used in performing attestation engagements. These circumstances may involve using internal auditors in either a reliance model or direct assistance model as part of a SOC 1 or SOC 2 examination engagement.

Q10. Are other accountants (e.g., other audit firms) used in performing attest engagements? If so, please describe the relevant circumstances, the nature of the work performed, and how it is used.

Based on our experience, it is uncommon for other accountants (e.g., other audit firms, excluding EY Global Limited member firms and affiliates) to be used in performing attestation engagements and referenced in an attestation report.

Q11. Are service organizations commonly used in relation to the subject matter of attest engagements? If so, please describe the relevant circumstances.

Based on our experience, there are limited situations in which service organizations are used in relation to the subject matter of attest engagements. These circumstances may involve an entity referring to a service organization that executes certain controls relevant to the subject matter. (e.g., reference to a service organization related to Federal Communications Commission reporting associated with royalty payments due to song copyright owners).

Q12. Are there circumstances in which accountants are engaged to perform agreed-upon procedures over an assertion rather than over subject matter? If so, please describe these circumstances.

We are aware of attestation engagements in which AUPs are performed over an assertion rather than over subject matter, but most AUP engagements are performed over subject matter. For example, certain state and local laws and regulations require AUPs over certain assertions.

Q13. Are engagement quality reviewers used in attest engagements performed under PCAOB attestation standards as they are under AT No. 1 and AT No. 2? If so, please describe the circumstances in which they are used. What challenges or unintended consequences might arise if PCAOB attestation standards required an engagement quality review? Please describe specific concerns, if any, with such a requirement.

We use engagement quality reviewers or another quality control process on all attestation engagements in the US, including those performed in accordance with the PCAOB's interim attestation standards. While the concept of engagement quality review exists in international standards, such a review is not required and is often performed in only higher risk engagements.

We believe it is important for the staff to weigh the costs and benefits of requiring an engagement quality review in attestation engagements, which would include consideration of the nature of the engagement (e.g., an examination versus an AUP) and engagement complexity (e.g., number of challenging, subjective and/or judgmental areas).

Economic implications

As we mentioned above, when engagements are performed using the PCAOB interim attestation standards, they are also performed in accordance with the AICPA attestation standards. If divergence in the requirements between the AICPA and PCAOB standards remains, there will continue to be incremental costs to perform attestation engagements, such as training for our professionals and service delivery costs.



In addition, there have been standard-setting projects completed by the IAASB and AICPA to enhance their attestation standards since the PCAOB adopted its standards. Therefore, we encourage the PCAOB to consider as part of its economic analysis the work completed in this area by other standard-setters that can be leveraged for updating the standards in a cost-effective manner.

We would be pleased to discuss our comments at your convenience.

Very truly yours,

A handwritten signature in black ink that reads 'Ernst & Young LLP'. The signature is written in a cursive, flowing style.

Copy to:

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