

## Agenda Item 2



### Specified Procedures Engagements

#### Objective of Agenda Item

To review and obtain feedback from the ASB on issues related to and a first-read draft of a proposed standard dealing with engagements to perform specified procedures.

#### Background

The Specified Procedures Task Force consists of the following members:

Denny Ard (Task Force Chair) – Member of the ARSC  
Jeremy Dillard – Member of the ARSC  
Marne Doman – PricewaterhouseCoopers LLP  
Dan Hevia – Member of the ASB  
David Johnson – Member of the AICPA’s Technical Issues Committee  
Paul Penler – Ernst & Young LLP  
Chad Singletary – Member of the ASB

The Task Force is staffed by Mike Glynn. The Chairs of the ARSC and ASB (Mike Fleming and Mike Santay, respectively) and the Chair of the Direct Engagements Task Force (Cathy Schweigel) have observer rights to the Task Force meetings.

The Task Force was charged by the ARSC and the ASB to develop a standard that would result in a new service in which CPAs would perform procedures and report on the results of those procedures – without being required to request or obtain an assertion from the engaging party or restrict the use of the report. The project is a joint effort of the ARSC and the ASB.

The Task Force was given the following directives in the development of the proposed standard:

- The standard is to be engagement driven
- No assertion is required to be requested or obtained
- The report would present procedures and related findings without expression of an opinion, a conclusion, or any form of assurance on the subject matter
- There would be no requirement to restrict the use of the report

The Task Force presented certain issues with respect to the development of the proposed standard to the ASB at the ASB’s meeting in May 2016 and requested feedback. The

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following is a summary of the feedback provided to the Task Force with respect to the issues:

Independence/Objectivity

The ASB directed that the standard be developed including a requirement that the practitioner be independent in order to perform the service. However, the ASB stated that further consideration may be needed as the standard is developed and deliberations continue. Since the ASB (and ARSC) determines whether the engagement requires the practitioner to be independent but the Professional Ethics Executive Committee (PEEC) determines what the practitioner would be required to do to ensure independence, the Task Force plans to request that the PEEC consider and advise as to whether the service would follow the same independence rules as an agreed-upon procedures engagement.

Preconditions for the Performance of a Specified Procedures Engagement

The ASB directed that the proposed standard include no preconditions. See “Issue #1” in the “Issues for Discussion with ASB” section.

Further, the ASB directed that the standard not require the engaging party to accept responsibility for the sufficiency of the procedures performed as the engaging party may not have a basis for making such a determination. The Task Force drafted the proposed standard so that no party would be required to accept responsibility for the sufficiency of the procedures. See “Issue #2” in the “Issues for Discussion with ASB” section.

Written Representations

The ASB stated that while certain members had some concern about a requirement for the practitioner to “consider” obtaining written representations, it had no objection to the Task Force moving forward with such a “consider” requirement.

**Issues for Discussion with ASB**

The proposed standard is drafted so as to stand alone, that is, without a common concepts chapter similar to AT-C section 105. If a common concepts chapter is developed to provide guidance for direct engagements and specified procedures, it is anticipated that the sections on ethical requirements and professional judgment (and perhaps other sections) would move to that chapter.

Additionally, the proposed standard does not include certain sections which may be necessary if a common concepts chapter is not developed. Those sections may include defining professional responsibilities (should vs. must); the hierarchy (standards vs. interpretative publications); and engagement level quality control.

**Issue #1 – Applicability of the Standard**

While the ASB directed that the proposed standard include no preconditions, to clarify when the standard would not apply, the Task Force felt it was necessary to identify situations in which the standards should not be applied. Therefore, the Task Force proposes

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that the draft standard include the following as paragraph X.4 (and corresponding application paragraph X.A1):

- X.4** This section does not apply to engagements to
- a. apply agreed-upon procedures;
  - b. issue letters (commonly referred to as *comfort letters*) to underwriters and certain other requesting parties;
  - c. conclude that the subject matter is in accordance with the criteria; or
  - d. measure the subject matter against certain criteria (for example, regulations).

Additionally, an engagement to perform specified procedures may not be sufficient when the engaging party is required by law, regulation, or contract to engage a practitioner to perform an agreed-upon procedures engagement. (Ref: par. X.A1)

- X.A1** Nothing in this standard is intended to preclude a practitioner from performing a specified procedures engagement and an agreed-upon procedures engagement on the same subject matter.

**Action Requested of the ASB**

The ASB is asked to provide feedback to the Task Force as to the proposed applicability of the proposed standard.

**Issue #2 – Responsibility for the Sufficiency of the Procedures**

The ASB directed that the standard not require the engaging party to accept responsibility for the sufficiency of the procedures performed as the engaging party may not have a basis for making such a determination.

The Task Force considered the following scenarios with respect to responsibility for the sufficiency of the specified procedures:

1. The engaging party would be required to accept responsibility for the sufficiency of the procedures (rejected by the ASB)
2. The practitioner would be required to accept responsibility for the sufficiency of the procedures
3. There would be no requirement for any party to accept responsibility for the sufficiency of the procedures

The Task Force drafted the proposed standard under scenario #3 considering:

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1. The proposed approach is not inconsistent with the ARSC and ASB deliberations.
2. Market driven approach – permits the option of having the engaging party identify/determine the sufficiency of the procedures to be performed, or for the engaging party to direct the practitioner to use procedures identified/determined to be sufficient by another party (e.g. market trade organization). It also allows the practitioner to determine to the sufficiency of the procedures.
3. There are certain advantages if an engaging party chooses to agree to the sufficiency of the procedures, including in certain instances a) being more efficient as the practitioner would not need to determine whether the identified procedures meet the objective of the engagement and b) broadening the type of engagements which may be performed as practitioners may not be able to conclude whether the procedures meet the objective of a certain engagement (e.g. doesn't have the expertise or may not want to take the risk)
4. While the proposed service is separate and distinct from an agreed-upon procedures engagement, paragraph .A6 of AT-C section 215 states that the party “responsible for the sufficiency (nature, timing, and extent) of the agreed-upon procedures ... assume the risk that such procedures might be insufficient”. Therefore, if the theory is consistently applied, if the practitioner accepts responsibility for the sufficiency of the procedures, the practitioner would also assume the risk that such procedures might be insufficient.
5. A requirement for the practitioner to conclude that the procedures are sufficient to meet the objectives of the engagement appears to require the practitioner to perform procedure sufficient to obtain assurance to permit the practitioner to express an opinion or conclusion – which the proposed standard does not.
6. The Task Force does not see an apparent downside to the proposed approach.

The following is included as paragraph X.A23 of the proposed standard:

**X. A23** The specified procedures may be designed by the practitioner, the engaging party, or an other party. Neither the practitioner, engaging party, nor any other party are required to take responsibility that the specified procedures are sufficient to meet the objectives of the engagement or the anticipated expectations of any potential user of the practitioner's specified procedures report. However, nothing precludes the engaging party or an other party from taking such responsibility or the practitioner from requesting that the engaging party or other party take such responsibility.

**Action Requested of the ASB**

The ASB is asked to provide feedback as to whether it agrees with the Task Force's approach to not require any party to accept responsibility for the sufficiency of the procedures.

**Issue #3 – Reporting**

The general reporting requirements are included as paragraphs X.25 – X.27 of the draft proposed standard.

Some key elements of the report include the following:

- The report is required to include an appropriate addressee. Application guidance is included stating that the addressee is most commonly the engaging party as opposed to anticipated users of the report.
- The report is required to include an identification of the party that is responsible for the subject matter of the engagement.
- Unless the practitioner is taking responsibility for the sufficiency of the procedures, the report is required to state that the practitioner makes no representation regarding the sufficiency of the procedures.
- While not required, application guidance is included to state that the practitioner may make clear in the report that an agreed-upon procedures engagement was not performed.
- While not required, application guidance is included to state that the practitioner may consider communicating that a written assertion was not obtained.

Additionally, in order to illustrate how the Task Force envisions the specified procedures report to look, the Task Force has presented two illustrations in an exhibit to the proposed standard. Those examples illustrate:

- An independent accountant’s report on applying specified procedures in connection with a lottery drawing
- An independent accountant’s report on applying specified procedures in connection with a union election

**Action Requested of the ASB**

The ASB is asked to provide feedback with the proposed reporting requirements for a specified procedures engagement as well as the proposed illustrative reports.

**Next Steps**

The following represents the Task Force’s timetable for future presentations to the ASB and ultimate issuance of the proposed standard:

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- October 2016 – Revised draft standard to be presented to the ASB with a request that the ASB consider voting to expose the proposed standard for public comment.
- May 2017 – Consideration of comment letters on exposure draft.
- July 2017 – Final draft presented to the ASB with a request that the ASB consider voting to issue as a final standard.

**Agenda Items Presented:**

Agenda item 2A      Draft proposed standard, *Specified Procedures*