

Agenda Item 5



Specified Procedures Engagements

Objective of Agenda Item

To review and obtain feedback from the ASB on issues related to and a revised 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 presented a first-read draft of the proposed standard to the ASB at its meeting in August 2016 and requested feedback.

Issues for Discussion with ASB

Issue #1 Name of the Service

From the onset of the project to develop a standard for a non-assertion based engagement in which the practitioner performs procedures and reports on the results of those procedures, the service has been referred to as *specified procedures*. As the project has progressed, the Task Force no longer believes that the name is an accurate description of the service. In addition, the term *specified audit procedures* is used in AU-C section 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* and the term *specified procedures* is used in paragraph .14 of the AT-C Preface to refer to procedures performed in an agreed-upon procedures engagement. The use of the same or similar term may cause confusion.

Because the service, along with direct examination and direct review engagements, is under the umbrella of *direct engagements*, the Task Force proposes that the name of the service be changed to *directed procedures*.

Action Requested of the ASB

The ASB is asked to provide feedback to the Task Force as to the Task Force’s proposal to revise the name of the proposed service.

Issue #2 - Applicability of the Standard – Specified Procedures vs. Agreed-Upon Procedures

At its meeting in August 2016, the ASB stated that practitioners will need guidance as to how to differentiate a specified procedures engagement from an agreed-upon procedures engagement. The Task Force revised the introduction paragraph and the related application paragraphs to provide a clear differentiation from agreed-upon procedures engagements and also provide a reference to the agreed-upon procedures literature if the engagement fits the agreed-upon procedures criteria. The following represents the proposed paragraphs:

<p>Introduction</p> <p>X.1 This proposed standard applies to engagements in which a CPA in the practice of public accounting is engaged to issue, or does issue, a practitioner’s specified procedures report on subject matter. In an engagement performed in accordance with this section, the practitioner does not perform an examination or a review and does not provide an opinion or conclusion. In addition, a specified procedures engagement is not an agreed-upon procedures engagement. The practitioner’s report on specified</p>	<p>Introduction (Ref: par. X.1)</p> <p>X.A1 An agreed-upon procedures engagement is one in which a practitioner is engaged to issue, or does issue a practitioner’s report of findings based on specific agreed-upon procedures applied to subject matter for use by specified parties. AT-C section 215, <i>Agreed-Upon Procedures Engagements</i> contains performance and reporting requirements and application guidance for all agreed-upon procedures engagements.</p> <p>X.A2 The fundamental differences between a specified procedures</p>
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procedures is in the form of procedures performed and findings. The report may be intended for a broad range of users and is not required to be restricted as to use. (Ref: par. X.A1-X.A4)

engagement and an agreed-upon procedures engagement are

- An agreed-upon procedures engagement is predicated on the concept that a party other than the practitioner makes an assertion about whether the subject matter is measured or evaluated in accordance with suitable criteria. In a specified procedures engagement, there is no requirement for the practitioner to request or obtain such an assertion.
- An agreed-upon procedures engagement requires the specified parties to assume responsibility for the sufficiency of the procedures. In a specified procedures engagement, no party is required to assume responsibility for the sufficiency of the procedures.
- An agreed-upon procedures engagement requires the practitioner to request certain written representations from the responsible party. In a specified procedures engagement, written representations are not required.
- In an agreed-upon procedures engagement, the use of the practitioner's report is required to be restricted to the specified parties. There is no such requirement to restrict the use of the practitioner's report in a specified procedures engagement.

X.A3 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.

X.A4 Individual users of the specified procedures report would make their own

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determination as to how the report is to be used and relied upon based on the procedures performed and the results obtained.

Action Requested of the ASB

The ASB is asked to consider whether the proposed paragraphs provide guidance to differentiate the specified procedures engagement from an agreed-upon procedures engagement.

Issue #3 – “Responsible Party” vs. “Engaging Party”

The proposed standard is drafted such that the engaging party, the practitioner, or another party can accept responsibility for the sufficiency of the procedures. However there is no requirement for any party to accept such responsibility. The engaging party is responsible to identify the subject matter of the engagement and therefore, the proposed standard focuses on the engaging party as opposed to a responsible party. The Task Force does not believe that there is a need to identify a responsible party in a specified procedures engagement.

Since direct examination and direct review engagements require that a party be responsible for the subject matter of the engagement, the proposed section “Concepts Common to All Direct Engagements” (hereinafter referred to as “common concepts”; included as agenda item 5C) includes several responsibilities of the *responsible party*. So that the proposed common concepts section is suitable for specified procedures engagements, the Task Force proposes the following definition of *responsible party* (included in paragraph Y.10 of the proposed common concepts chapter):

Responsible party. The party(ies) responsible for the subject matter. For purposes of [reference the specified procedures standard], the responsible party is the party that determines the subject matter of the engagement.

Action Requested of the ASB

The ASB is asked to consider whether it agrees with the Task Force’s conclusions with respect to responsible party and engaging party.

Issue #4 – Other Information

At its meeting in August 2016, the ASB questioned whether requirements with respect to other information is necessary in an engagement in which the report provides no opinion or conclusion on the subject matter.

The practitioner’s report on specified procedures is expected to be used in a broad range of different situations and expected to be often distributed to a significant number of parties (for example, customers). As a result, it is expected that the practitioner’s report could be included with other information developed by the engaging party. For example:

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- Companies could develop a summary/analysis of progress towards meeting interim thresholds/goals to the market (e.g. expanding number of locations) and as part of the summary/analysis may include a practitioner's report on specified procedures and related findings regarding the location and timing of the stores opened
- Company could develop materials for prospective employees that include a practitioner's report on specified procedures and related findings with respect to specific divisions/operating units' progress toward the company's minority hiring goals. Such report and other information may be distributed to all employees
- Company develops guidelines for suppliers and include in the document the practitioner's report on specified procedures and findings related to procedures performed on certain (not all) of the information being provided to suppliers

Therefore, the Task Force has concluded that it is appropriate to provide requirements and guidance when the practitioner's specified procedures report is included in a document that contains other information.

Action Requested of the ASB

The ASB is asked to consider the Task Force's thoughts with respect to the inclusion of requirements and guidance on other information and whether it agrees with the Task Force's conclusion.

Issue #5 – Reporting

The general reporting requirements are included as paragraphs X.23 – X.25 of the draft proposed standard.

During its August 2016 meeting, the ASB expressed concern that the illustrative reports include a significant amount of language stating what the engagement is not and suggested that clear statements as to what the practitioner did do along with a simple statement that no opinion or conclusion is expressed should be sufficient.

However, after further consideration, the Task Force believes that the language with respect to the limitations of the engagement is appropriate. Limitations language is used in reports on services that provide less than a high level of assurance (such as review engagements (in accordance with the SSARSs, the SSAEs, or the audit literature); compilations; and agreed-upon procedures engagements). Additionally, since the practitioner is not expressing an opinion or conclusion and because of the differences with an agreed-upon procedures engagement, the Task Force believes that the report illustrations are appropriate.

Action Requested of the ASB

The ASB is asked to reconsider the illustrative reports and consider whether the illustrations appropriately describe the service provided and are in the public interest.

Issue #6 – Restricted-Use Reporting

At its meeting in August 2016, the ASB expressed concern that the proposed standard seemed to direct practitioners to restrict the use of the specified procedures report. It was suggested that the requirements and guidance included in the draft regarding restricted use reporting be removed as restricted use reporting may be an element that would direct the practitioner to performing an agreed-upon procedures engagement. The Task Force has deleted the requirements at the ASB's direction.

In response to a suggestion by the ASB, the Task Force included the following application guidance with respect to restricted use reporting:

X.A55 Nothing in this proposed standard precludes a practitioner from including an alert in any practitioner's specified procedures report. For example, when the terms of the specified procedures engagement require the practitioner to supply the practitioner's specified procedures report only to specified parties, the practitioner may consider it necessary in the circumstances to include a separate paragraph in the practitioner's specified procedures report that restricts the use of the practitioner's specified procedures report.

X.A56 The need for restriction on the use of a report may result from a number of circumstances, including the purpose of the report, the criteria used in preparation of the subject matter, the extent to which procedures performed are known or understood, and the potential for the report to be misunderstood when taken out of the context in which it was intended to be used

However, the Task Force continued discussions on the issues and believes that it would be difficult to support why the specified procedures standard would have a different basis for restricted use than examination and review engagements. The Task Force believes that the requirements and guidance with respect to restricted use reporting should be retained.

Action Requested of the ASB

The ASB is asked to reconsider its determination to delete the requirements with respect to restricted use reporting and provide guidance to the Task Force.

Issue #7 - Consideration of Subsequent Events and Subsequently Discovered Facts

At its meeting in August 2016, the ASB questioned why the proposed standard included a requirement for the practitioner to consider subsequent events and subsequently discovered facts and suggested that such a procedure would just be an additional specified procedure that the practitioner may perform and report on. A suggestion was made that, in the situation where the practitioner accepts responsibility for the sufficiency of the procedures, the practitioner be required to consider subsequent events and subsequently discovered facts.

The Task Force considered the issue and continues to believe that requirements with respect to subsequent events is necessary and proposes the following:

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X.28 In performing a specified procedures engagement, a practitioner should consider information about subsequent events that comes to his or her attention.

X.29 The practitioner has no responsibility to keep informed of events subsequent to the date of his or her report; however, the practitioner may later become aware of conditions that existed at that date, or subsequently, that might have affected the practitioner's report had he or she been aware of them. In such circumstances, the practitioner should discuss the matter with the engaging party and determine whether the practitioner's report should be revised to disclose the matter.

Action Requested of the ASB

The ASB is asked to reconsider its thoughts on the inclusion of requirements and guidance with respect to subsequent events and subsequently discovered facts and provide feedback to the Task Force as to the Task Force's proposed requirements and guidance.

Next Steps

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

- January 2017– 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:

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| Agenda item 5A | Draft proposed standard, <i>Specified Procedures</i> – clean |
| Agenda item 5B | Draft proposed standard, <i>Specified Procedures</i> – redline to show changes made to the draft presented to the ASB at its meeting in August 2016 |
| Agenda item 5C | Draft proposed standard, <i>Concepts Common to All Direct Engagements</i> |

Mr. Ard will refer to agenda item 5A as he walks the ASB through the proposed standard.