

Agenda Item 1



Attestation Standards

Discussion Memo and Issues

Objective of Agenda Item

To vote to ballot for exposure the following proposed revised AT-C sections:

- AT-C Section 105, *Concepts Common to All Attestation Engagements*
- AT-C section 205, *Examination Engagements*
- AT-C section 210, *Limited Assurance Engagements*
- AT-C section 215, *Agreed-Upon Procedures Engagements*

Conforming changes will be made to the subject matter AT-C sections (codified as AT-C section 300 series).

Background

The ASB has been debating proposed revisions to AT-C sections 105, 205, and 210 that, if issued as final standards, would enable a practitioner to report on subject matter without having to obtain a written assertion from the responsible party. The proposed attestation standards would also more closely align with International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

Additionally, the ASB has also discussed revising AT-C section 215 so that the flexibility proposed by the exposure draft, *Selected Procedures*, would be incorporated in an agreed-upon procedures engagement. Among other things, the proposed flexibility would allow the practitioner to determine the procedures to be performed without requiring any party to take responsibility for the sufficiency of the procedures. Instead, prior to the issuance of the practitioner's agreed-upon procedures report, the practitioner would be required to obtain a written acknowledgment from the engaging party that the procedures performed are appropriate for the intended purpose of the engagement. In addition, the proposed

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flexibility would permit the practitioner to issue an agreed-upon procedures report that is not restricted as to use. Nothing would preclude the practitioner from restricting the use of any report.

Given the relationship between the two projects, it was determined that to maximize efficiency the Selected Procedures Task Force and the Direct Engagements Working Group would be combined into one task force – the Attestation Standards Task Force (Task Force). The Task Force consists of the following members:

Denny Ard (Co-Chair) – Member of the ARSC
Catherine Schweigel (Co-Chair) – Former member of the ASB
Marne Doman – PricewaterhouseCoopers LLP
David Johnson – Member of the ARSC
Michael Manspeaker – Member of the AICPA’s Technical Issues Committee
Daniel Montgomery – Member of the ASB
Paul Penler – Ernst & Young LLP
Chad Singletary – Member of the ASB

The Task Force is staffed by Mike Glynn and Judith Sherinsky. The chairs of the ARSC and ASB (Mike Fleming and Mike Santay, respectively) have observer rights to the Task Force meetings. Matthew Zaun of the Government Accountability Office also serves as an observer to the Task Force.

Issues for Discussion with ASB

Issues Related to Proposed AT-C Section 105

Definition of Limited Assurance Engagement

The Task Force proposes to converge the definition of *limited assurance engagement* in paragraph 10 of AT-C 105 with the definition in ISAE 3000. The last two sentences of the ISAE 3000 definition are the following:

The nature, timing, and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner’s professional judgment, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users’ confidence about the subject matter information to a degree that is clearly more than inconsequential.

Several members of the Task Force believe that the phrases *meaningful level of assurance* and *more than inconsequential* are too subjective and that the term *meaningful level of assurance* implies that there is a range of levels of limited assurance. Those members suggest that the last two sentences of the ISAE 3000 definition be deleted from the definition in proposed AT-C section 105. If those sentences were deleted, the Task Force believes the standard would not be considered ISAE minus because the work effort and

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reporting requirements in AT-C section 210 mirror those for limited assurance engagements in ISAE 3000.

Other members of the Task Force believe that these sentences should be included in the definition of *limited assurance engagement* in AT-C section 105 because they support the idea that the level of assurance obtained does need to be more than inconsequential and the evidence obtained must be sufficient and appropriate for the conclusion expressed. Some of the members see the practitioner's consideration of whether the practitioner has obtained a meaningful level of assurance as part of a "stand-back" in which the practitioner considers whether sufficient work was performed to enable the practitioner to conclude that "nothing came to my attention to indicate the subject matter is materially misstated."

The definition of *limited assurance engagement* in the May 2018 draft of proposed AT-C section 105 is consistent with the ISAE 3000 definition.

Action Requested of the ASB

The ASB is asked to consider whether the definition of *limited assurance engagement* in proposed AT-C section 105 (which has been converged with the ISAE 3000 definition) should retain the last two sentences? If retained, is there any application guidance that should be added?

Responsible Party is Not Readily Apparent

The definition of *responsible party* in extant AT-C section 105 states that if the nature of the subject matter is such that no such party exists, a party who has a reasonable basis for making a written assertion about the subject matter may be deemed to be the responsible party. This sentence was deleted from the definition of *responsible party* in proposed AT-C section 105 and became the basis of new paragraph A19. In addition, paragraph A38 was added to AT-C section 105 which states in part, "All attestation engagements have an engaging party, a responsible party, the practitioner, and intended users." To avoid the confusion that could result from stating in paragraph A19 that a responsible party may not exist in some engagements and also stating in paragraph A38 that in all attestation engagement there is a responsible party, the Task Force suggests that one of the following paragraphs be included as new paragraph A19:

.A19 In certain circumstances the subject matter of the engagement is a phenomenon that no party created or prepared, including information that is publicly available, for example, published interest rates or the number of days above 90 degrees in a particular locality. In these engagements, the responsible party is a party who has a reasonable basis for making a written statement about the subject matter

Paragraph A38 of ISAE 3000

Evidence that the appropriate relationship exists with respect to responsibility for the underlying subject matter may be obtained through an acknowledgement provided by the responsible party. Such an acknowledgement also establishes a basis for a common understanding of the responsibilities of the responsible party and the practitioner. A

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written acknowledgement is the most appropriate form of documenting the responsible party's understanding. In the absence of a written acknowledgement of responsibility, it may still be appropriate for the practitioner to accept the engagement if, for example, other sources, such as legislation or a contract, indicate responsibility. In other cases, it may be appropriate to decline the engagement depending on the circumstances, or to disclose the circumstances in the assurance report.

Action Requested of the ASB

The ASB is asked to consider whether any application guidance is necessary and if so, whether either of these two application paragraphs provides useful guidance for situations in which the responsible party may not be readily apparent.

Issues Related to Proposed AT-C Section 205

Failure to Obtain Representations Precludes an Unmodified Opinion

Paragraph A64 of extant AT-C section 205 indicates that refusal to provide written representations constitutes a limitation on the scope of the examination sufficient to preclude an unmodified opinion. This would mean that in examination engagements in which the responsible party is not the engaging party and the responsible party refuses to provide representations, the practitioner would be precluded from issuing an unmodified opinion. This conflicts with revised paragraph 54c of extant AT-C section 205 (shown below) which provides for greater latitude in these circumstances.

54 When one or more of the requested written representations are not provided, the practitioner should

- a. discuss the matter with the appropriate party(ies);
- b. reevaluate the integrity of those from whom the representations were requested or received and evaluate the effect that this may have on the reliability of representations and evidence in general; and
- c. if any of the matters are not resolved to the practitioner's satisfaction, take appropriate action, ***including determining the possible effect on the opinion in the practitioner's report.***

To address this issue, paragraph A64 was deleted and paragraph 47 of AT-C section 205 was revised to indicate that a practitioner's inability to obtain sufficient appropriate evidence results in a scope limitation, and in these circumstances the practitioner should express a qualified opinion, disclaim an opinion, or withdraw from the engagement, when withdrawal is possible under applicable law or regulation. This allows for practitioner judgment in determining the type of opinion to be issued. This approach also converges with the approach taken by ISAE 3000.

Paragraph .39 of proposed AT-C section 210 includes a paragraph consistent with paragraph .54 of AT-C section 205. Paragraph .60 of proposed AT-C section 210 states, when a scope limitation exists, the practitioner should withdraw from the engagement, when withdrawal is possible under applicable laws and regulations

Action Requested of the ASB

The ASB is asked to consider whether it agrees with how the Task Force proposes to address situations in which the practitioner does not obtain written representations from the responsible party.

Information Needs of Intended Users

New paragraph A80 of AT-C 205 (shown below) addresses practitioners' reports that expand on or supplement the report elements required by paragraphs 62-63 of AT-C section 205.

A80 The practitioner may choose to issue a report that contains only the minimum reporting elements included in paragraphs .62-.63 of this section or may issue a report that expands on or supplements those elements. In addition to the basic elements, the report may include information or explanations that are not intended to affect the practitioner's opinion, for example, detail about the terms of the engagement, the applicable criteria being used, findings relating to particular aspects of the engagement, details of the qualifications and experience of the practitioner and others involved with the engagement, a description of the procedures the practitioner performed, and, in some cases, recommendations. **The practitioner may find it helpful to consider the importance of providing such information to the information needs of the intended users.** As required by paragraph .79, additional information is clearly separated from the practitioner's opinion and phrased in a manner that makes clear that it is not intended to detract from that opinion

Certain Task Force members would prefer to delete the sentence shown in bold font because the practitioner cannot know all of the information needs of the intended users or the importance of providing such information to the intended users. The concern is that failure to anticipate such needs and include the related information in the practitioner's report may be viewed as a deficiency in the report.

Action Requested of the ASB

The ASB is asked to consider whether the sentence in bolt font in paragraph A80 should be retained or deleted from that paragraph.

Issues Related to Proposed AT-C section 210

Reporting requirements

At its meeting in January 2018, the ASB directed that the reporting requirements for a limited assurance engagement be revised such that the requirements would be consistent with the reporting requirements for an examination engagement.

Additionally, the ASB directed that the practitioner's limited assurance report be required to include an informative summary of the work performed as a basis for the practitioner's conclusion. Pursuant to the ASB's directive, paragraph .47 of the proposed revised AT-C section 210 requires the practitioner to include a description of the work performed as the

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basis for the practitioner's conclusion in the practitioner's limited assurance report. To clarify the level of detail expected, the proposed standard includes the following application guidance:

.A83 The summary of the work performed helps the intended users understand the practitioner's conclusion. The summary may be as brief as "the procedures we performed were based on our professional judgment and consisted primarily of analytical procedures and inquiries" or may be more detailed. Factors to consider in determining the level of detail to be provided in the summary of the work performed may include:

- Circumstances specific to the entity (e.g., the differing nature of the entity's activities compared to those typical in the industry).
- Specific engagement circumstances affecting the nature and extent of the procedures performed.
- The intended users' expectations of the level of detail to be provided in the report, based on market practice, or applicable law or regulation.

.A84 It is important that the summary be written in an objective way that allows intended users to understand the work done as the basis for the practitioner's conclusion. In most cases, this will not involve detailing the entire work plan, but on the other hand it is important for it not to be so summarized as to be ambiguous, nor written in a way that is overstated or embellished.

.A85 The exhibit to this section includes examples of practitioner's limited assurance reports including summaries of procedures performed.

Action Requested of the ASB

The ASB is asked to provide feedback whether the reporting requirements with respect to the practitioner's limited assurance report are appropriate.

Issues Related to Proposed AT-C section 215

Acknowledgement of appropriateness of the procedures performed from parties in addition to the engaging party

Paragraph .17 of the proposed revised AT-C section 215 requires, prior to the issuance of the practitioner's agreed-upon procedures report, the practitioner to obtain a written acknowledgment from the engaging party that the procedures performed are appropriate for the intended purpose of the engagement. If the engaging party refuses to provide the required written acknowledgment, the practitioner is required to withdraw from the engagement. The written acknowledgment of the appropriateness of the procedures performed may be documented in the engagement letter, an addendum to the engagement letter, a representation letter, or some other written communication.

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To provide guidance to address situations in which the practitioner wants parties in addition to the engaging party to acknowledge that the procedures performed are appropriate for their purposes, the Task Force proposes to include the following application paragraph:

.A29 In addition to obtaining the required acknowledgment regarding the appropriateness of the procedures from the engaging party, the practitioner may also want other parties to acknowledge that the procedures performed are appropriate for their purposes. For example, the practitioner may decide to restrict the use of the practitioner's report to certain specified users and wants acknowledgement from those specified parties that the procedures performed are appropriate for their purposes. Additionally, if the engagement is related to a contract or regulation, the practitioner may want to confirm with the other parties to the contract or with the regulator that the procedures are appropriate for their purposes. Nothing precludes the practitioner and engaging party from agreeing to the type of communication or acknowledgment to be used and who would make the communication. However, if the practitioner intends to communicate directly with a party other than the engaging party, the rules regarding confidential information as set forth in the AICPA Code of Professional Conduct may apply.

Action Requested of the ASB

The ASB is asked to consider whether the proposed application paragraph provides the appropriate and adequate guidance to address situations in which the practitioner wants to obtain acknowledgement from parties in addition to the engaging party that the procedures performed are appropriate for their purposes.

Written Representations

Previous drafts of the proposed revised AT-C section 215 included requirements with respect to specific written representations consistent with AT-C section 205 and 210. While the Task Force continues to believe that the requirement for the practitioner to request written representations from appropriate parties in an agreed-upon procedures engagement is appropriate, the Task Force concluded that all of the required representations in examination and limited assurance engagements are not necessary in a non-assurance agreed-upon procedures engagement and revised the proposed requirement so that it reads as follows:

- 22** The practitioner should request from the appropriate party(ies) written representations in the form of a letter addressed to the practitioner. The representations should
- a. if not obtained as part of the agreed-upon terms of the engagement as required by paragraph .10d, state that the responsible party is responsible for the subject matter in accordance with (or based on)_the criteria;

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- b. state that the appropriate party(ies) has provided the practitioner with all relevant information and access, as applicable, as agreed upon in the terms of the engagement
- c. any additional representations that the practitioner determines are appropriate.

Action Requested of the ASB

The ASB is asked to consider whether the proposed requirement with respect to written representations in an agreed-upon procedures engagement are appropriate.

Independence

At previous meetings, certain ASB members had expressed concern with respect to potential independence issues resulting from the proposed changes to AT-C sections. As a result, the Professional Ethics Executive Committee (PEEC) formed a Task Force to consider potential issues. Mr. Ard as well as ASB member Chad Singletary are members of that Task Force. The Task Force anticipates that a formal written response from the PEEC will be provided prior to the ASB meeting.

Overall Action Requested of the ASB

The ASB is asked to consider the proposed revised AT-C sections 105, 205, 210, and 215 (and conforming changes to the AT-C section 300 series) and to vote to ballot to expose the proposed revised AT-C sections for public comment.

Agenda Items Presented:

- Agenda item 1A Extant AT-C Section 105, *Concepts Common to All Attestation Engagements*, marked to show changes resulting in the May 2018 draft
- Agenda item 1B Extant AT-C section 205, *Examination Engagements*, marked to show changes resulting in the May 2018 draft
- Agenda item 1C Extant AT-C section 210, *Limited Assurance Engagements*, marked to show changes resulting in the May 2018 draft
- Agenda item 1D Extant AT-C section 215, *Agreed-Upon Procedures Engagements*, marked to show changes resulting from the proposed May 2018 draft
- Agenda item IE Extant AT-C section 305, *Prospective Financial Information* marked to show changes resulting in the May 2018 draft

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- Agenda item 1F Extant AT-C section 310, *Reporting on Pro Forma Financial Information*, marked to show changes resulting in the May 2018 draft
- Agenda item 1G Extant AT-C section 315, *Compliance Attestation*, marked to show changes resulting in the May 2018 draft
- Agenda item 1H Extant AT-C section 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting* marked to show changes resulting in the May 2018 draft dated
- Agenda item 1I Clean draft of AT-C Section 105, dated May 2018
- Agenda item 1J Clean draft of AT-C section 205, dated May 2018
- Agenda item 1K Clean draft of AT-C section 210, dated May 2018
- Agenda item 1L Clean draft of AT-C section 215, dated May 2018
- Agenda item 1M Mapping of the requirements in International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* to the related paragraphs in proposed AT-C sections 105, 205, and 210

Ms. Schweigel will use agenda items 1A and 1B when discussing proposed AT-C sections 105 and 205, respectively. Mr. Ard will use agenda items 1C and 1D when discussing proposed AT-C sections 210 and 215, respectively.