



Agenda Item 4

Discussion Memorandum: Attestation Standards

Objective of Agenda Item

To discuss and obtain feedback from the Auditing Standards Board (ASB) on

- comments received on the public exposure of the proposed Statement on Standards for Attestation Engagements, *Revisions to Statement on Standards for Attestation Engagements No. 18*, Attestation Standards: Clarification and Recodification (ED)
- the Attestation Task Force's (Task Force) preliminary thoughts on potential revisions to the ED

The Task Force plans to present a draft of a revised standard to the ASB for consideration at its meeting in May 2019. The following are the agenda items for the discussion of this topic:

4A: The ED, which is available at

<https://www.aicpa.org/content/dam/aicpa/research/exposedrafts/accountingandauditin/g/downloadabledocuments/20180711/20180711a-ed-ssae-18-revisions.pdf>

4B: A summary of the views expressed in the comment letters received identifying commenters supporting a proposed revision, commenters opposing a proposed revision, excerpts of significant comments received, and Task Force observations.

Background

The Task Force was formed as a joint task force of the ASB and the AICPA Accounting and Review Services Committee (ARSC) and was charged with considering revisions to the attestation standards to enable a practitioner to (a) report on an examination, review, or agreed-upon procedures engagement without having to request a written assertion from the responsible party and without report implications and (b) provide an agreed-upon procedures report without having to restrict the use of the report to the specified parties who agreed upon the procedures. The Task Force is co-staffed by Mike Glynn and Judith Sherinsky and 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 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.

The ED was issued in July 2018. If the proposed standard were issued as a final standard, the most significant revisions to the attestation standards would be the following:

- The practitioner would no longer be required to request a written assertion from the responsible party when the practitioner is reporting directly on the subject matter (this revision affects AT-C sections 105, *Concepts Common to All Attestation Engagements*; 205, *Examination Engagements*; 210, *Limited Assurance Engagements*; and 215, *Agreed-Upon Procedures Engagements*).
- AT-C section 210 would be more closely harmonized with the limited assurance provisions of International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits and Reviews of Historical Financial Information*, including changing the term *review engagement* to *limited assurance engagement*. The proposed revisions to AT-C section 210 would require that the practitioner's report include an informative summary of the work performed as a basis for the practitioner's conclusion. The proposed revisions to AT-C section 210 would also permit the practitioner to issue an adverse conclusion when misstatements are material and pervasive.
- AT-C section 215 would be revised to
 - no longer require that all the parties to the engagement (the engaging party, the responsible party (if different than the engaging party), and users of the practitioner's report) agree to the procedures to be performed and take responsibility for their sufficiency. Instead, the proposed revision would require that the engaging party acknowledge the *appropriateness* of the procedures for the intended purpose of the engagement and explicitly allow the practitioner to develop, or assist in developing, the procedures
 - allow the practitioner to issue a general use report, unless the procedures are prescribed and the practitioner is precluded from designing or performing additional procedures, the criteria are not available to users, or the criteria are suitable only for a limited number of users. Nothing would preclude the practitioner from restricting the use of any report.

Thirty-nine comment letters were received from a variety of interested parties including large international networks/firms, smaller firms, state societies, and regulators. All comment letters are available at (ASB members are assumed to have read these comment letters)

<https://www.aicpa.org/content/aicpa/research/exposedrafts/accountingandauditing/comment-letters-on-proposed-ssae-no-18.html>.

ARSC Preliminary Consideration of the Comments Received on the Exposure Draft

The ARSC met on November 13-15, 2018 and was asked to provide preliminary feedback to the Task Force for consideration when developing this discussion memorandum. ARSC's feedback with respect to issues related to the proposed revisions to AT-C sections 210 and 215 are included in this discussion memorandum.

Convergence

It is the ASB's and the ARSC's stated strategies to converge its standards with those of the International Auditing and Assurance Standards Board (IAASB). For that reason, another objective of the ED was to further converge the attestation standards with ISAE 3000 (Revised), which was issued in December 2013. ISAE 3000 (Revised) is an assurance standard that addresses reasonable assurance engagements (examinations) and limited assurance engagements (reviews). The IAASB's assurance standards are the equivalent of the ASB's attestation standards for examinations and reviews.

When the attestation standards were clarified by the ASB in 2016, many of the paragraphs in the extant AT-C sections were converged with the related paragraphs in ISAE 3000. However, the ASB did not adopt certain aspects of ISAE 3000 at that time; for example, allowing the practitioner to perform an examination or review engagement without having to request a written assertion from the responsible party.

In addition, in November 2018, the IAASB issued an exposure draft of International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information* (Revised). The comment period for the exposure draft ends on March 15, 2019. The exposure draft is available at <http://www.ifac.org/system/files/publications/files/Proposed-ISRS-4400-Revised.pdf>.

Issues Relevant to Examination, Review, and Agreed-Upon Procedures Engagements

Issue 1: Appropriate Party vs. Responsible Party

The extant attestation standards use the terms *engaging party*, *responsible party*, and *appropriate party* (i.e., the engaging party or the responsible party as appropriate in the circumstances of the engagement). In the ED, many references to the engaging party or the responsible party were changed to appropriate party, for example, with respect to who the practitioner should request written representations from. Certain commenters have expressed concern that asking the practitioner to use professional judgment in determining whether the action is directed at the engaging party or the responsible party is a step backwards from the clarity in the existing standards and could create confusion or inconsistent application.

Action Requested of the ASB

The Task Force agrees that use of the terms *responsible party* and *engaging party* is preferable to using only the term *appropriate party*. Does the ASB believe that the proposed SSAE should revert to identifying the parties (engaging party or responsible party)?

Issue 2: Underlying Subject Matter and Subject Matter Information

The objectives, requirements, and guidance in the extant attestation standards and in the ED relate to the reliability of subject matter or an assertion about subject matter. The extant attestation standards and the ED define the term *subject matter* as the phenomenon that is measured or evaluated by applying criteria. The practitioner’s attestation report is intended to enhance the degree of confidence that intended users can place in the subject matter.

ISAE 3000 (Revised) incorporates the concepts of and terms *subject matter information* and *underlying subject matter* and includes the following definitions of these terms:

Subject matter information—The outcome of the measurement or evaluation of the underlying subject matter against the criteria (i.e., the information that results from applying the criteria to the underlying subject matter).

Underlying subject matter—The phenomenon that is measured or evaluated by applying criteria. (This definition is the same as the definition of *subject matter* in the extant attestation standards.)

Subject matter information can take the form of an assertion or the practitioner’s report. Subject matter information might also be produced by a third party who may have measured the underlying subject matter against the criteria and is reporting on that outcome.

The following are examples of underlying subject matter and subject matter information:

Nature of the Engagement	Underlying Subject Matter	Subject Matter Information
Reporting on an examination of compliance with laws or regulations	XYZ Company’s compliance with HIPAA during the period January 1, 2018 to June 30, 2018.	Whether XYZ Company complied with HIPAA during the period January 1, 2018 to June 30, 2018
Reporting on an examination of whether a financial forecast is presented in accordance with AICPA guidelines for a forecast.	ABC Company’s forecast as of December 31, 2018	Whether ABC Company’s forecast as of December 31, 2018 is presented in accordance with AICPA guidelines for a forecast.

In developing the ED, the ASB decided not to use the terms *subject matter information* and *underlying subject matter* due to practitioners’ familiarity with the single term and because the term *subject matter information* was not considered to be an important term. Certain commenters

indicated that using only the term *subject matter* in the ED, and not using the term *subject matter information* creates confusion regarding the activities a practitioner performs in an attestation engagement and the effect of those activities on practitioner independence. To explain this point, consider the following:

In the course of performing an examination or review engagement, a practitioner always measures or evaluates the *underlying subject matter* against the criteria, whether or not the responsible party also does so. Whether the responsible party and the practitioner both perform the measurement or evaluation or only the practitioner does so, the outcome of the measurement or evaluation in either case is *subject matter information*, based on the definition of that term shown above. In situations in which the responsible party measures or evaluates the subject matter (i.e., the *underlying subject matter*), the practitioner's procedures to measure or evaluate the underlying subject matter generally may not be significantly different from the procedures performed if only the practitioner performs the measurement or evaluation of the underlying subject matter.

The AICPA Professional Ethics Executive Committee has indicated that in an attestation engagement, a practitioner must be independent of the subject matter (i.e., *underlying subject matter*) but need not be independent of the *subject matter information*. So even when the practitioner is the only party generating *subject matter information*, the practitioner is independent, as long as the responsible party takes responsibility for the *underlying subject matter* and the practitioner is not responsible for the *underlying subject matter*.

Action Requested of the ASB

The Task Force supports using the terms *underlying subject matter* and *subject matter information* for the reasons stated above. The ASB is asked to consider this issue and provide feedback to the Task Force.

Issue 3: Requirement to Obtain a Written Assertion From the Responsible Party

The Task Force continues to support eliminating the requirement for the practitioner to

- request a written assertion from the responsible party
- withdraw from an examination or review engagement when the engaging party is the responsible party and the practitioner has not obtained a written assertion,
- disclose in the practitioner's report that the practitioner has not obtained a written assertion in an examination or review engagement in which the engaging party is not the responsible party, or in an agreed-upon procedures engagement.

However there continues to be support from the members of the Task Force for requiring the practitioner to request a written assertion when performing an examination engagement that addresses certain subject matters. For example, AT-C section 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*, requires a practitioner to request a written assertion from the responsible party in an engagement performed under that AT-C section. Also, certain AICPA guides, such as the guide, *Reporting on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy*. (SOC 2 guide) "require" an assertion. Although nothing in

the proposed attestation standards precludes a practitioner from requesting a written assertion in any attestation engagement, the Task Force has noted that the language in certain audit guides may need to be reevaluated if the proposed SSAE is issued as a final standard.

Action Requested of the ASB

Should certain subject matter sections and AICPA audit guides require an assertion, and if yes, what is the rationale for requiring an assertion in certain attestation engagements?

Proposed Revisions to AT-C section 215

Issue 4: Criteria

Criteria

AT-C section 215 of the ED includes the following requirements (*emphasis* added):

.11 In order to establish that the preconditions for an agreed-upon procedures engagement are present, the practitioner should determine that the following conditions, in addition to the preconditions identified in section 105, are present^{fn3}

- a. The practitioner determines that procedures can be designed, performed, and reported on to meet the intended purpose of the engagement.
- b. Procedures to be applied to the subject matter will be expected to result in reasonably consistent findings *using the criteria*.
- c. When applicable, the practitioner agrees to apply any materiality limits established by the engaging party for reporting purposes.

^{fn3} Paragraphs .25-.30 of section 105.

.13 The agreed-upon terms of the engagement should include the following:

...

- b. Identification of the subject matter, the responsible party, *and the criteria to be used*

...

- e. The responsible party is responsible for the subject matter *in accordance with (or based on) the criteria*; and (Ref: par. .A8-.A11)

...

.25 The practitioner should request from the appropriate party(ies) written representations in the form of a letter addressed to the practitioner. The representations should (Ref: par. .A30 and A36)

- a. *if not obtained as part of the agreed-upon terms of the engagement as required by paragraph .13d, state that the responsible party is responsible for the subject matter in accordance with (or based on) the criteria;*

...

.33 In the following circumstances, the practitioner's agreed-upon procedures report should include an alert, in a separate paragraph, that restricts the use of the report: (Ref: par. A57–A59)

- a. The engaging party or other party prescribes the procedures for the practitioner to perform and precludes the practitioner from performing or designing additional procedures;
- b. *The practitioner determines that the criteria used to evaluate the subject matter are appropriate only for a limited number of parties who either participated in their establishment or can be presumed to have an adequate understanding of the criteria;*
or
- c. *The criteria used to evaluate the subject matter are available only to the specified parties.*

In its comment letter, Grant Thornton LLP stated:

We strongly urge the Board to eliminate the notion of “criteria” from the AUP standard. Even as the AUP standard exists today, practitioners struggle with understanding what role “criteria” plays in an AUP engagement, and it appears inclusion of the term is unnecessary to sufficiently execute the engagement. We further note this concept is not in the extant International Standard on Related Services 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*. We believe instances of the use of criteria can be easily revised to focus on procedures and subject matter. This project provides the Board with an opportunity to make such revisions, and, in our opinion, improve the understandability of the standard in general.

Note that the exposure draft of International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information* (ISRS 4400 (Revised)) likewise does not include the concept of *criteria*.

The Task Force believes that the *emphasized* wording in the preceding paragraphs as well as in associated application guidance can be removed from the proposed revised AT-C section 215.

Action Requested of the ASB

The ASB is asked to provide its views on whether the concept of *criteria* should be eliminated in an agreed-upon procedures engagement.

Issue 5: Proposed Expansion of the Practitioner's Ability to Perform Procedures and Report in a Procedures and Findings Format Beyond That Provided by AT-C Section 215

The Task Force noted that the comment letters indicate broad support for providing the practitioner with additional flexibility in the performance of a procedures-and-findings service beyond that

provided by extant AT-C section 215. The Task Force determined that there are 3 ways in which such flexibility can be accomplished:

- Revise AT-C section 215 so that it provides separate performance and reporting requirements
- Revise AT-C section 215 so that it “steers” practitioners toward performing a traditional AUP engagement in certain circumstances (the approach taken in the ED)
- Develop a separate stand-alone AT-C section consistent with the exposure draft of the proposed SSAE, *Selected Procedures*

The Task Force acknowledged that a new separate stand-alone AT-C section such as the exposure draft *Selected Procedures* may represent challenges for regulators and peer review programs that currently address agreed-upon procedures engagements in their regulations. Additionally, the UAA defines “attest” engagements in part as “any examination, review, or agreed upon procedures engagement to be performed in accordance with the SSAE, . . .” Thus, a separate AT-C section as referenced above would require amendment to the UAA and is likely not feasible.

In response to comments on the proposed expansion of the practitioner’s ability to perform procedures and report in a procedures-and-findings format, the Task Force

- proposed revisions to requirements related to establishing the terms of the engagement and to the report to allow parties in addition to the engaging party to accept responsibility for the appropriateness of the procedures performed.
- did not support revisions to AT-C 215 that would provide for separate requirements for “flexible” engagements and “traditional” AUP engagements.
- did not support the development of a separate standard (such as the exposure draft *Selected Procedures*) because such an approach could result in practitioner uncertainty regarding which standard should be applied in addition to the issues cited above.

After considering the comment letters received, feedback from the ARSC, and the decision not to develop a proposed AT-C section 215 that includes separate requirements for a “flexible” vs. “traditional” service, the Task Force concluded that “traditional AUP engagements” could be retained and supported by requiring

- a. the practitioner to determine whether engagement circumstances are such that parties in addition to the engaging party should be asked to agree that the procedures performed are appropriate for their intended purpose;
- b. the practitioner to obtain the engaging party’s agreement at the beginning of the engagement about whether parties in addition to the engaging party would need to agree to the appropriateness of the procedures performed; and

- c. to make clear to the engaging party that the parties that agree to the appropriateness of the procedures performed will be identified in the practitioner's report and, if no such additional parties exist, the report will state that no other party acknowledged that the procedures are appropriate.

It is the Task Force's position that, in certain circumstances, the engaging party will be reluctant to be identified as the only party that has agreed that the procedures are appropriate for the intended purpose of the engagement and therefore will want other parties to also agree to the procedures. The Task Force proposes that two new paragraphs be included in the section entitled "Agreeing on the Terms of the Engagement" and that paragraph .13 of proposed AT-C section 215 be revised as follows (new language is in ***boldface italics*** and deleted language is in ~~strike through~~). (Please note that these proposed revisions are intended to serve as a strawman to spark discussion and to give the ASB an indication as to how the standard may be revised. The Task Force will revise and include appropriate application guidance based on feedback from the ASB and will present a revised draft standard to the Board at its meeting in May 2019.)

Agreeing on the Terms of the Engagement

...

.12A The practitioner should establish an understanding with the engaging party regarding the

- a. *intended purpose of the engagement; and*
- b. *law, regulation, or contract pursuant to which the engagement is to be performed, if any.*

.12B Based on the understanding obtained pursuant to paragraph .12A, the practitioner should determine

- a. *whether parties in addition to the engaging party should be asked to agree that the procedures performed are appropriate for their intended purpose; and*
- b. *the implications for the practitioner's agreed-upon procedures report.*

.13 The agreed-upon terms of the engagement should include the following:

- a. The nature of the engagement
- b. Identification of the subject matter and the responsible party, ~~and the criteria to be used~~
- c. The responsibilities of the practitioner (Ref: par. .A5-.A7)
- d. A statement that the engagement will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants
- e. The responsible party is responsible for the subject matter ~~in accordance with (or based on) the criteria~~ (Ref: par. .A8-.A11)
- f. A statement that the procedures that will be performed will not constitute an examination or a limited assurance attestation engagement (or an audit or review of financial

- statements, if applicable) and accordingly, the practitioner will not express an opinion or a conclusion
- g. Identification of the following:
- i. The intended purpose of the engagement ***and the intended users of the agreed-upon procedures report*** as determined by the engaging party (Ref: par. .A12)
 - ii. If applicable, the law, regulation, or contract pursuant to which the engagement is to be performed
- h. An acknowledgment that the engaging party agrees to provide the practitioner, prior to the completion of the engagement, with a written acknowledgment regarding the appropriateness of the procedures for the intended purpose of the engagement. ***In circumstances in which parties in addition to the engaging party will be asked to acknowledge that the procedures are appropriate for their purposes, either as a result of the practitioner’s determination pursuant to paragraph .12B or because the engaging party determines that additional acknowledgment is appropriate or necessary, the agreed-upon terms of the engagement should include an identification of such parties and whether the practitioner or the engaging party will communicate with such parties.*** (Ref. par. .A13–.A15).
- i. An acknowledgment that the ~~appropriate~~ ***engaging*** party agrees to provide, at the conclusion of the engagement, a representation letter ***that will include a representation that the engaging party has obtained acknowledgment from all appropriate parties that the procedures are appropriate for their purposes, if applicable.***
- j. ***Reference to the expected form and content of the agreed-upon procedures report, including:***
- i. ***a description of the parties that will be identified as having acknowledged that the procedures are appropriate for their purposes;***
 - ii. ***if the engaging party acknowledges that the procedures are appropriate for the intended purpose of the engagement, and no other parties acknowledge that the procedures are appropriate for their purposes, a statement that no other party acknowledged that the procedures are appropriate for any purpose; and***
 - iii. ***any*** disclaimers expected to be included in the practitioner’s report, if applicable
- k. Use restrictions, if applicable
- l. Assistance to be provided to the practitioner, if applicable
- m. Involvement of a practitioner’s external specialist, if applicable
- n. Specified materiality limits, if applicable

Although the Task Force proposes that the reporting requirements be revised to include an identification of the parties that have acknowledged that the procedures performed are appropriate for their purposes, the Task Force continues to believe that the practitioner should be permitted to issue a general-use agreed-upon procedures report that includes a statement that the report may not be suitable for any purpose other than the stated intended purpose of the engagement.

Illustrations of a practitioner's agreed-upon procedures report when (a) only the engaging party agrees to the appropriateness of the procedures performed and (b) when parties in addition to the engaging party agree to the appropriateness of the procedures performed, are provided in Exhibit A to this discussion memorandum.

Action Requested of the ASB

The ASB is asked to provide its views on the Task Force's proposal for addressing issues related to expansion of the practitioner's ability to perform procedures and report in a procedures-and-findings format beyond that provided by AT-C section 215.

The Task Force specifically requests that the ASB consider whether

- a. the proposed revisions to the "Agreeing on the Terms of the Engagement" section and the reporting requirements would appropriately address concerns expressed by commenters regarding "traditional AUP engagements";
- b. the proposed revisions reflected above in paragraphs .12A and .12B should be established as preconditions for an AUP engagement;
- c. the agreement of parties in addition to the engaging party with respect to the appropriateness of the procedures should be obtained by the practitioner, the engaging party, either, or both;
- d. in situations in which the agreement of parties in addition to the engaging party with respect to the appropriateness of the procedures is obtained, it is sufficient for the engaging party to acknowledge that it received such agreement (in the representation letter) or whether the practitioner should be required to receive the acknowledgment directly from such parties because the practitioner could not simply accept such representations from the engaging party without corroboration (i.e., the practitioner would inspect evidence of such acknowledgement to corroborate the representation received from the engaging party); and
- e. it continues to support the practitioner's ability to issue a general-use report unless the procedures are prescribed. Are there other instances in which a report should be required to include an alert restricting its use (for example, if the practitioner believes the procedures performed and findings are appropriate for limited number of parties)?

Issue 6: Sufficiency/Appropriateness of the Procedures

Extant AT-C section 215 is premised on specified parties determining the procedures to be performed by the practitioner and assuming responsibility for the *sufficiency* of the procedures. As stated in the preceding section, the practitioner would be required to obtain from the engaging party, prior to the issuance of the practitioner's report, a written acknowledgment that the procedures performed are *appropriate* for the intended purpose of the engagement. However, the practitioner would not be required to obtain acknowledgment about the sufficiency of the procedures. If the practitioner is unable to obtain such acknowledgment about the appropriateness

of the procedures, the practitioner would be required to withdraw from the engagement. The preceding section includes proposed revisions to the draft standard regarding when acknowledgement from parties other than the engaging party are to be obtained.

The comment letters tend to favor the use of the more familiar term *sufficient* rather than the term *appropriate*. However, the proposed ISRS 4400 (Revised) uses the term *appropriate*. Further, the Task Force believes that the term *appropriate* should be used as the term denotes suitability whereas *sufficiency* might be interpreted by many practitioners to refer only to a measure of quantity.

After consideration of the comment letters received and feedback from the ARSC, the Task Force proposes that, in addition to accepting responsibility for the *appropriateness* of the procedures, the proposed SSAE should include application guidance that explicitly states that the engaging party and/or other parties may also agree that the procedures are *sufficient* for their purposes. The engaging party and/or other parties may also make other acknowledgments such as that the procedures are *suitable* for their purposes.

In a related matter, after consideration of the comments received, the Task Force believes that the standard should prohibit the practitioner from taking any responsibility for the appropriateness of the procedures for any purpose and that the report should state that the practitioner has not taken such responsibility.

Illustrations of a practitioner's agreed-upon procedures report (a) when the engaging party (and other parties) acknowledge that the procedures, in addition to being appropriate, are also sufficient for their purposes and (b) that includes a statement that the practitioner does not take any responsibility for the appropriateness of the procedures for any purpose, is provided in the Exhibit to this discussion memorandum.

Action Requested of the ASB

The ASB is asked whether it agrees with the Task Force that the proposed standard should

- a. continue to require the engaging party (and other parties, as appropriate) to agree that the procedures performed are *appropriate* for their intended purposes;
- b. permit the engaging party (and other parties, as appropriate), in addition to acknowledging that the procedures performed are *appropriate* to also acknowledge that the procedures performed are *sufficient, suitable, or any other qualifier*.
- c. if the change in item "b" is made, develop application guidance stating that other terms are interchangeable with *appropriate* or should the parties always be required to acknowledge that the procedures are *appropriate* but may also acknowledge that the procedures are *sufficient, suitable, or other qualifiers*?
- d. prohibit the practitioner from taking responsibility for the appropriateness (or any other qualifier) of the procedures.

Issue 7: Requirement to Obtain a Representation Letter

Pursuant to paragraph .28 of AT-C section 215, a practitioner performing an agreed-upon procedures engagement is required to request from the responsible party written representations in the form of a letter addressed to the practitioner. The IAASB's proposed ISRS 4400 (Revised) does not require the practitioner to request any written representations from any party.

While acknowledging that the requirement to *request* a representation letter as opposed to requiring the practitioner to *obtain* a representation letter should provide the appropriate flexibility for practitioners who are unable to obtain the letter, the Task Force recommends that, when the engaging party and the responsible party are different, the practitioner should be required to *consider requesting* written representations from the responsible party (the practitioner would still be required to request written representations from the engaging party). Further, the Task Force proposes that, when the written representations are not obtained from the responsible party, that the practitioner be required to include a statement to that effect in the agreed-upon procedures report. It is the Task Force's belief that such a statement in the report would induce the practitioner to request representations when appropriate and the responsible party to provide such representations when appropriate. Exhibit B, "Proposed Revised Extant Requirements with Respect to Written Representations in an Agreed-Upon Procedures Engagements" of this discussion memorandum illustrates how the extant requirements related to written representations may be revised if the requirements proposed in this discussion memorandum are adopted.

The Task Force proposes to revert to the required written representations in extant AT-C section 215. When requested written representations are not obtained from the engaging party, the following paragraph from the ED would continue to be in effect:

.28 When one or more of the requested written representations required by paragraph 24 are not provided, or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or the practitioner concludes that the written representations are otherwise not reliable, the practitioner should (Ref: par. A39-A40)

- a. discuss the matter with the ~~appropriate party(ies)~~ **engaging party**;
- 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 practitioner's agreed-upon procedures report. (Ref: par. A41)

The ED includes an application paragraph stating that such appropriate action includes withdrawing from the engagement.

An illustration of a practitioner's agreed-upon procedures report when the practitioner does not obtain requested written representations from the responsible party is provided in Exhibit A to this discussion memorandum.

Because the Task Force is proposing a reporting requirement when written representations are not obtained, in addition to the revisions proposed in Issue 5 of this discussion memorandum, the Task Force proposes that the following additional revisions be made to the required agreed-upon terms of the engagement (the additional revisions are highlighted and represent changes to the ED version):

- i. An acknowledgment that the appropriate **engaging** party agrees to provide, at the conclusion of the engagement, a representation letter ***that will include a representation that the engaging party has obtained the acknowledgment from all appropriate parties that the procedures are appropriate for their purposes, if applicable.***
- ii. ***A statement that written representations may be requested from parties in addition to than the engaging party.***
- j. ***Reference to the expected form and content of the agreed-upon procedures report, including:***
 - i. ***a description of the parties that will be identified as having acknowledged that the procedures are appropriate for their purposes;***
 - ii. ***if only the engaging party acknowledges that the procedures are appropriate for its purposes, a statement that no other party acknowledged that the procedures are appropriate;***
 - iii. ***if certain written representations are requested but not obtained, an identification of the party that did not provide the requested written representations; and***
 - iv. ***any*** disclaimers expected to be included in the practitioner's report, if applicable

The Task Force also recommends that the required written representations from extant AT-C section 215 be retained if the *should consider* construct is adopted. The ED had proposed to scale back the written representations requested in an attempt to address practice issues. Proposed revised requirements with respect to written representations are provided in Exhibit B to this discussion memorandum.

Action Requested of the ASB

The ASB is asked whether it agrees with the Task Force's proposal

- a. to retain the representation letter requirements in extant AT-C section 215 when the engaging party and the responsible party are the same
- b. to adopt a *should consider requesting* requirement with respect to written representations from the responsible party when the engaging party and the responsible party are

different (the practitioner would still be required to request written representations from the engaging party)

- c. to include a requirement that, when the written representations are not obtained, the practitioner be required to include a statement to that effect in the agreed-upon procedures report.

Proposed Revisions to AT-C section 210

Issue 8: Change of Term “Review Engagement” to “Limited Assurance Engagement”

The ED proposes to change the term *review engagement* to *limited assurance engagement*. It was the stated intent of the proposed revision to more appropriately describe the nature and extent of the practitioner’s work that may be necessary to obtain limited assurance when the subject matter is nonfinancial. The Task Force noted that commenters were divided with respect to the proposed revision – with many being indifferent.

Those opposed to the proposed change primarily based their opposition on potential public confusion with respect to interim reviews performed in accordance with AU-C section 930, *Interim Financial Information* and reviews of financial statements performed in accordance with AR-C section 90, *Review of Financial Statements* as well as engagements performed in accordance with the standards of the PCAOB. Commenters stated that such confusion may arise because users are familiar with the term *review* and that the same level of assurance is intended to be obtained in all review engagements. Using the term *limited assurance* to refer to the service performed in accordance with AT-C section 210 may lead some users to conclude that the level of assurance obtained and corresponding conclusion expressed is different from the level of assurance obtained and conclusion expressed in an engagement performed in accordance with AR-C section 90, AU-C section 930, or the PCAOB standards.

The contrast between AT-C section 210 and AR-C section 90/AU-C section 930 was intentional as the Task Force, the ARSC, and the ASB intended to contrast the attestation services from services performed on financial statements. The change is intended to be similar to the use of the term *examination* to differentiate that engagement from a financial statement audit. The term is consistent with that used in ISRS 4400 (Revised). The Task Force and ASB determined not to use the ISRS 4400 (Revised) term *reasonable assurance engagement* as the term *examination* already appropriately contrasted with the term *audit*.

However, the UAA defines “attest” engagements in part as “any examination, review, or agreed upon procedures engagement to be performed in accordance with the SSAEs, ...” Thus, using a new title to describe the engagement would require amendment to the UAA and is likely not feasible. Convergence could potentially be achieved by retaining the title and term “review” while adding a definition stating that a “review” is a limited assurance engagement or possibly providing application material.

Action Requested of the ASB

The ASB is asked to provide its views on the change of the term *review engagement* to *limited assurance engagement* – specifically, whether the ASB has changed its position with respect to the appropriateness of the proposed change.

Issue 9: Description of Procedures Performed in the Practitioner’s Report

The ED also requires the practitioner to include a description of the procedures performed in the practitioner’s limited assurance report. The comments received on the ED favor increased transparency; however, support for the proposed revision was lukewarm. The Task Force continues to support the proposed reporting requirement.

Action Requested of the ASB

The ASB is asked to consider whether it continues to support the inclusion of a description of the procedures performed in the practitioner’s limited assurance report.

Issue 10: Enabling the Practitioner to Express an Adverse Review Conclusion

The Task Force continues to support the option of enabling the practitioner to express an adverse conclusion in a limited assurance report and comments received also tended to favor the proposed option. However, there was opposition to the proposal – specifically from Grant Thornton LLP and Ernst & Young LLP. Those commenters were concerned that the proposal is in conflict with how auditors are required to consider similar situations in an interim review in accordance with AU-C section 930. The following is from Grant Thornton’s comment letter:

In our view, the most workable solution to reporting in a review engagement when there is a misstatement of the subject matter is to follow the construct set forth in paragraphs .35 through .37 of AU-C 930, *Interim Financial Information*. We propose the following paragraphs for the Board’s consideration and recommend eliminating the notion of an adverse conclusion and the phrase “material and pervasive” from proposed AT-C Section 210:

When the subject matter has not been prepared in accordance with the criteria in all material respects, the practitioner should consider whether modification of the practitioner’s report on the subject matter is sufficient to address the departure from the criteria.

If the practitioner concludes that modification of the standard report is sufficient to address the departure, the practitioner should modify the report. The modification should describe the nature of the departure and, if practicable, state the effects on the subject matter.

If the practitioner believes that modification of the report is not sufficient to address the departures from the criteria, the practitioner should withdraw from the review engagement and provide no further services with respect to such subject matter.

We believe these paragraphs provide more reasonable and appropriate flexibility for any situations where departures from the criteria occur but a modified opinion providing limited assurance is still an acceptable approach.

ISAE 3000 (Revised) permits the expression of an adverse conclusion when misstatements are material and pervasive.

Further, it should be noted that the ARSC has questioned whether the prohibition in AR-C section 90 on the accountant modifying the standard report to include a statement that the financial statements are not in accordance with the applicable financial reporting framework (i.e., an adverse conclusion) remains appropriate when the financial statements are materially misstated and the effects of the matter(s) are both material and pervasive to the financial statements. ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements* permits the issuance of an adverse conclusion.

The Task Force believes that it may not be in the public interest to prohibit the expression of an adverse conclusion when the practitioner is aware that the subject matter is materially and pervasively misstated. If the practitioner withdraws from the engagement, users of the subject matters may not be made aware of such misstatements. Further, the situation could arise when a practitioner is engaged to perform a review in accordance with both AT-C 210 and ISAE 3000 (Revised) and has identified a misstatement of the subject matter that is material and pervasive. Although extant AT-C 210 prohibits the issuance of an adverse conclusion, ISAE 3000 (Revised) would require the issuance of such a conclusion.

Action Requested of the ASB

The ASB is asked to provide its views on the proposal to permit the expression of an adverse conclusion - specifically, whether the ASB has changed its position with respect to the appropriateness of the proposed change

Issue 11: Prohibition on the Performance for Certain Subject Matter

Commenters overwhelmingly supported retaining the prohibition on the practitioner performing a limited assurance engagement on (a) prospective financial information; (b) internal control; or (c) compliance with requirements of specified laws, regulations, rules, contracts, or grants

Issue 12: Independence

Several commenters have raised concerns around the impact on the practitioner's independence resulting from the following proposed revisions:

- No longer requiring the practitioner to request a written assertion from the responsible party when the practitioner is reporting directly on the subject matter.
- In an AUP engagement, requiring only the engaging party to acknowledge the appropriateness of the procedures for the intended purpose and explicitly allowing the practitioner to develop, or assist in developing, the procedures.
- Allow the practitioner to issue a general use report, unless the procedures are prescribed and the practitioner is precluded from designing or performing additional procedures, the

criteria are not available to users, or the criteria are suitable only for a limited number of users.

A conference call involving leadership of the AICPA's Professional Ethics Executive Committee (PEEC), its staff, the Task Force, AICPA ASB staff, and firm representatives that dissented to the issuance of the ED was held in August 2018 to discuss PEEC's views regarding the practitioner's independence given the proposed revisions to the Attestation Standards described above. In those earlier discussions, leadership of PEEC indicated that the proposed revisions would not cause the practitioner's independence to be impaired as a result of performing engagements pursuant to the proposed revised attestation standards. It should be noted that these views were of individuals comprising PEEC leadership and that this matter had not been put to the full PEEC for disposition.

Due to the concerns expressed in comment letters received to the ED, AICPA staff provided leadership of PEEC and its staff with a document summarizing the comments received relative to independence. Also provided to leadership of PEEC and its staff were the dissents issued by the four ASB members dissenting to issuance of the ED and a description of the significant revisions to the Attestation Standards proposed in the ED. On December 17, 2018 a follow up conference call involving the following people was held with the leadership of PEEC and its staff:

- The current PEEC Chair
- The immediate past PEEC Chair
- PEEC member chairing the PEEC task force on non-assurance services
- AICPA PEEC staff, including the VP – Ethics & Practice Quality
- The ASB Attestation Standards Task Force Co-Chairs and AICPA task force staff
- The ASB Chair
- The ARSC Chair
- The AICPA Chief Auditor

The objective of this follow up conference call was to learn whether, after considering the comments received on the ED that relate to independence as well as the ASB member dissents, the views of PEEC leadership and staff as previously expressed had changed or whether PEEC leadership had any other views to share with the Task Force. A summary of the views of PEEC leadership as expressed on this conference call are as follows (note: these views are of individuals comprising PEEC leadership and that this matter had not been put to the full PEEC for disposition):

- The basic positions expressed by PEEC leadership during the August 2018 conference call had not changed as a result of the additional follow up information provided for the December 17, 2018 conference call.
- Due to the comments received on exposure as well as the four dissents issued, the PEEC task force and the ASB Attestations Standards Task Force should devise a way to make the basis for the positions of the PEEC leadership available to the public.
- The full PEEC would consider these matters as a full committee during its February 2019 meeting although any substantive public position would not be likely until its May 2019 meeting.

Agenda Items Presented:

- Agenda item 4A Exposure Draft Proposed Statement on Standards for Attestation Engagements, *Revisions to Statement on Standards for Attestation Engagements No. 18*, Attestation Standards: Clarification and Recodification, which is available at:
<https://www.aicpa.org/content/dam/aicpa/research/exposedrafts/accountingandauditing/downloadabledocuments/20180711/20180711a-ed-ssae-18-revisions.pdf>
- Agenda item 4B Summary of the views expressed in the comment letters received identifying commenters supporting a proposed revision, commenters opposing a proposed revision, excerpts of significant comments received, and Task Force responses to the comments.

Exhibit A – Illustrative Agreed-Upon Procedures Report

The following illustrative agreed-upon procedures report is from the exposure draft and is marked to show how the report may be presented if the requirements proposed in this discussion memorandum are adopted. If appropriate, the revised draft to be presented to the ASB at its meeting in May 2019 will include the revised requirements.

Please note that these proposed revisions are intended to serve as a strawman to spark discussion and to give the ASB an indication as to how the illustrative report may look. The Task Force will revise based on feedback from the ASB and will include a revised illustrative report(s) with the draft standard to be presented to the Board at its meeting in May 2019.

Example 1: Practitioner’s Agreed-Upon Procedures Report Related to a Statement of Investment Performance Statistics; the Practitioner has the Ability to Perform or Design Additional Procedures

Independent Accountant’s Report on Applying Agreed-Upon Procedures

[Appropriate Addressee]

We have performed the procedures enumerated below on *[identify the underlying subject matter, for example, the accompanying Statement of Investment Performance Statistics of XYZ Fund for the year ended December 31, 20X1]*. *[The engaging party, for example, XYZ Fund]* acknowledged that the procedures performed are appropriate [and sufficient] for the purpose of *[identify the intended purpose of the engagement]*. No other party acknowledged that the procedures are appropriate [and sufficient] for any purpose. We make no representation regarding the appropriateness [and sufficiency] of the procedures enumerated below either for the purpose of the engagement or for any other purpose and therefore ~~Our~~ report may not be suitable for any other purpose.

OR

We have performed the procedures enumerated below on *[identify the underlying subject matter, for example, the accompanying Statement of Investment Performance Statistics of XYZ Fund for the year ended December 31, 20X1]*. *[The engaging party, for example, XYZ Fund]* acknowledged that the procedures performed are appropriate [and sufficient] for the purpose of *[identify the intended purpose of the engagement]*. [Other parties that have acknowledged that the procedures are appropriate for their purposes] also acknowledged that the procedures are appropriate [and sufficient] for their purpose. We make no representation regarding the appropriateness [and sufficiency] of the procedures enumerated below either for the purpose of the engagement or for any other purpose and our report may not be suitable for any other purpose.

An agreed-upon procedures engagement involves our performing the procedures that *[the engaging party, for example, XYZ Fund]* and, if applicable, any parties in addition to the engaging party who have agreed are appropriate for their purposes] has acknowledged to be appropriate

for the purpose of [identify the intended purpose of the engagement] and reporting on findings based on the procedures performed.

[Include paragraphs to enumerate procedures and findings.]

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or limited assurance attestation engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on *[identify the underlying 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 independent and have fulfilled our other ethical responsibilities in accordance with relevant ethical requirements related to the agreed-upon procedures engagement.

[As part of our engagement, we requested but did not obtain certain written representations from responsible party that did not provide requested written representations.](#)

[Additional paragraph(s) may be added to describe other matters.]

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

Exhibit B – Proposed Revised Extant Requirements with Respect to Written Representations in an Agreed-Upon Procedures Engagements

The following is intended to illustrate how the extant requirements with respect to written representations may be revised if the requirements proposed in this discussion memorandum are adopted. If appropriate, the revised draft to be presented to the ASB at its meeting in May 2019 will include the revised requirements.

Please note that these proposed revisions are intended to serve as a strawman to spark discussion and to give the ASB an indication as to how the revised requirements may look. The Task Force will revise based on feedback from the ASB and will present a revised draft standard to the Board at its meeting in May 2019.

Written Representations

.28 *When the engaging party is the responsible party*, ~~the~~ practitioner should request from the ~~responsible~~ *engaging* party written representations in the form of a letter addressed to the practitioner. The representations should (Ref: par. .A30)

- ~~a. include the responsible party's assertion about the subject matter based on the criteria.~~
- ba.** state that all known matters contradicting the subject matter ~~or assertion~~ and any communication from regulatory agencies or others affecting the subject matter ~~or assertion~~ have been disclosed to the practitioner, including communications received between the end of the period ~~addressed in the written assertion~~ *addressed by the subject matter* and the date of the practitioner's report.
- cb.** acknowledge responsibility for
 - ~~i. the subject matter and the assertion;~~
 - ii. selecting the criteria, when applicable; and
 - ~~iii. determining that such criteria are appropriate for the responsible party's purposes.~~
- dc.** state that it has provided the practitioner with access to all records relevant to the subject matter and the agreed-upon procedures.
- ed.** state that the responsible party has disclosed to the practitioner other matters as the practitioner deems appropriate.

.28A *When the engaging party is not the responsible party, the practitioner should consider requesting the written representations required by paragraph .28 from the responsible party.*

.29 When the engaging party is not the responsible party, the practitioner should request written representations from the engaging party, in addition to those requested from the responsible party, in the form of a letter addressed to the practitioner. The representations should

- a. acknowledge that the responsible party is responsible for the subject matter ~~and assertion.~~

~~b. acknowledge the engaging party's responsibility for selecting the criteria, when applicable.~~

~~c. acknowledge the engaging party's responsibility for determining that such criteria are appropriate for its purposes.~~

~~db. state that the engaging party is not aware of any material misstatements in the subject matter or assertion.~~

~~ec. state that the engaging party has disclosed to the practitioner all known events subsequent to the period (or point in time) of the subject matter being reported on that would have a material effect on the subject matter or assertion.~~

~~fd. address other matters as the practitioner deems appropriate.~~

.30 The date of the written representations should be as of the date of the practitioner's report. The written representations should address the subject matter and periods covered by the practitioner's findings.