



Agenda Item 5

Discussion Memorandum: Attestation Standards

Objective of Agenda Item

To discuss the following with the Auditing Standards Board (ASB)

- A draft dated May 2019 of the July 2018 exposure draft, *Revisions to Statement on Standards for Attestation Engagements No. 18*, Attestation Standards: Clarification and Recodification (ED), marked to respond to comment letters on the ED
- Issues related to the ED.

Background

If the ED were issued as a final standard, the following would be some of the more significant changes to the attestation standards:

- The practitioner would no longer be required to request a written assertion from the responsible party unless the practitioner were engaged to report on an assertion. or required to request an assertion to comply with a law, regulation, contract, or specific AT-C section.
- The attestation standards would explicitly recognize examination and review engagements in which only the practitioner has measured or evaluated the subject matter against the criteria (i.e., direct engagements). The practitioner would be required to request a written representation from the responsible party about whether a party other than the practitioner has measured or evaluated the subject matter against the criteria, and, if so, the results of that measurement or evaluation.
- AT-C section 210, *Review Engagements*¹ would be more closely harmonized with the limited assurance provisions in International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits and Reviews of Historical Financial Information*. The proposed revisions to AT-C section 210 would require the practitioner's report to 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.

¹ The exposure draft would have replaced the term *review engagements* with the term *limited assurance engagements*, which is the term used in ISAE 3000 (Revised), *Assurance Engagements Other Than Audits and Reviews of Historical Financial Information*. At its January 2019 meeting, the Auditing Standards Board decided to retain the term *review engagements*.

- AT-C section 215, *Agreed Upon Procedures Engagements*, would
 - no longer require the engaging party, the responsible party (if different from the engaging party) and users of the practitioner’s report to agree upon 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>.

Issues Related to the ED

Issue 1: Subject Matter and Subject Matter Information

The extant attestation standards and the ED define the term *subject matter* as the phenomenon that is measured or evaluated by applying criteria. ISAE 3000 (Revised) uses the terms *subject matter information* and *underlying subject matter* and includes the following definitions of those 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.)

In developing the ED, the ASB decided against using 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. However, many commenters on the ED indicated that using only the term *subject matter*, and not using the term *subject matter information* creates confusion regarding the responsibilities and activities of the practitioner or other party in an attestation engagement and the effect of those activities on practitioner independence, among other matters.

At its January 2019 meeting, the ASB asked the Attestation Task Force (task force) to retain the

definition of subject matter in extant AT-C section 105, *Concepts Common to All Attestation Engagements*, and to add the definition of subject matter information to the definitions in AT-C section 105. Discussion during the January meeting indicated a consensus on the meaning of term *subject matter information* did not exist, so the ASB asked the task force to develop an application paragraph linked to the definition of subject matter information that would explain the difference between subject matter and subject matter information. In response to this request, the task force proposed that the following application paragraph (which, except for some minor changes, is the same as paragraph 11 of the IAASB *International Framework for Assurance Engagements*) be added to AT-C section 105:

A19. The outcome of the measurement or evaluation of a subject matter is the information that results from applying the criteria to the subject matter. For example:

- The financial statements (outcome) result from measuring an entity's financial position, financial performance and cash flows (subject matter) by applying a financial reporting framework (criteria).
- A statement about the effectiveness of internal control (outcome) results from evaluating the effectiveness of an entity's internal control process (subject matter) by applying relevant criteria.
- Entity-specific performance measures (outcome) result from measuring various aspects of performance (subject matter) by applying relevant measurement methodologies (criteria).
- A greenhouse gas statement (outcome) results from measuring an entity's greenhouse emissions (subject matter) by applying recognition, measurement and presentation protocols (criteria).
- A statement about compliance (outcome) results from evaluating the compliance of an entity (subject matter) with, for example, law and regulation (criteria).

The term *subject matter information* is used to mean the outcome of the measurement or evaluation of a subject matter against the criteria. It is the subject matter information about which the practitioner gathers sufficient appropriate evidence as the basis for the practitioner's conclusion

Question for the ASB

Does the ASB believe that paragraph A19 clarifies the meaning of the term *subject matter information* or would it be better not to include paragraph A19?

Issue 2: In Accordance With or Based on the Criteria

The following are examples of requirements in the extant attestation standards for which the ED adds the words *in accordance with or based on the criteria*: (The language shown is the language in the May 2019 draft of the ED)

- Paragraph .26.25b of AT-C section 105 of the ED indicates that in order to establish that the preconditions for an attestation engagement are present, the practitioner should

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determine whether the responsible party is a party other than the practitioner and takes responsibility for the subject matter in accordance with (or based on) the criteria.

- Paragraph .08*di* of AT-C section 205 of the ED indicates that the agreed-upon terms of the engagement should include the responsibilities of the appropriate party including that the responsible party is responsible for the subject matter in accordance with (or based on) the criteria.
- Paragraph .50*ai* of AT-C section 205 of the ED requires the practitioner to request a representation from the responsible party that it is responsible for the subject matter in accordance with (or based on) the criteria

The following are comments included in comment letters or made during task force discussions that address the addition of the words *in accordance with (or based on) the criteria*:

Comments Supporting the Addition of the Words <i>in accordance with (or based on) the criteria</i>	
E&Y	<p>We do not recommend that the ASB move forward with this proposed amendment, but if it does, we believe the practitioner should be required to not only request but also obtain written representation from the responsible party that it takes responsibility for the subject matter being in accordance with the specified criteria. If the representation is not obtained, the practitioner should be required to either withdraw from the engagement, or in the case of an examination, disclaim an opinion when the responsible party is the engaging party. When the responsible party is not the engaging party, we believe the practitioner should be able to exercise judgment, based on the facts and circumstances.</p>
PWC	<p>Under the clarified AT-Cs, the written representation was focused on the responsible party's assertion about the subject matter based on the criteria. We believe the practitioner should always obtain written representations from the responsible party taking responsibility for both the subject matter and the subject matter being prepared in accordance with (or based on) the criteria.</p> <p>We believe the intent of the revised requirement is, in the absence of an assertion from the responsible party, to describe who has measured and evaluated the subject matter and the results of that measurement or evaluation. However, the language used in AT-C section 205.50 is confusing since it is attempting to address all types of attestation engagements, including direct engagements.</p> <p>We note ISAE 3000.56 focuses on the appropriate parties "confirming the measurement or evaluation of the underlying subject matter against the applicable criteria, including that all relevant matters are reflected in the subject matter information." We prefer this construct, in addition to a specific representation from the responsible party taking responsibility for the subject matter.</p>
Attestation Task Force discussions	<p>Paragraph 6<i>bi</i> of AU-C section 210, <i>Terms of Engagement</i>, states the following: In order to establish whether the preconditions for an audit are present, the auditor should</p> <ul style="list-style-type: none"> b. obtain the agreement of management that it acknowledges and understands its responsibility (Ref: par. .A9–.A12 and .A17) <ul style="list-style-type: none"> i. for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; (Ref: par. .A13) <p>The attestation standards should contain a parallel requirement.</p>

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Comments Opposed to the Addition of the Words <i>in accordance with (or based on) the criteria</i>	
D&T	<p>Subtopic 1.297.010 of the Code stipulates that the “covered member needs to be independent with respect to the responsible party(ies), as defined in the SSAEs.” In turn, paragraph 10 of AT-C 105 in the ED defines a responsible party as “[t]he party responsible for the subject matter, which is a party other than the practitioner.” This concept is fundamental to accepting an attestation engagement and is critical in the determination of independence by the practitioner. In extant paragraph 25a of AT-C 105 when establishing that the preconditions for an attestation engagement are present, the practitioner determines that “[t]he responsible party is a party other than the practitioner and takes responsibility for the subject matter.” D&T agrees with the precondition requirement of extant AT-C 105 as it is aligned with the concepts in the Code, as well as the definition of responsible party in AT-C 105 in the ED.</p> <p>In the ED one of the preconditions for an attestation engagement was amended as follows (amendments shown in bold text and strikethrough): “Whether the responsible party is a party other than the practitioner and takes responsibility for the subject matter in accordance with (or based on) the criteria.” The addition of the phrase “in accordance with (or based on) the criteria” is contrary to the defined term and goes to the measurement or evaluation of the subject matter in accordance with (or based on) the criteria (and the resulting outcome). It does not address the foundational requirement that the responsible party should take responsibility for the subject matter itself. As drafted, it is conceivable that the responsible party may not take responsibility for the subject matter, but rather would take responsibility only for the measurement or evaluation of the subject matter based on the criteria. We do not believe this was the ASB’s intent in proposing to amend the wording of the precondition, and instead we recommend that the ED revert to the extant requirement.</p> <p>We recommend clarifying the phrase added “in accordance with or based on the criteria’ as we believe it is confusing in the context of whether the responsible party is actually making an assertion to that effect. If the Board adopts the recommendation to integrate the notion of subject matter information, perhaps that would assist in providing context for what is meant by the phrase.</p>
Attestation Task Force discussions	<p>The phrase “the responsible party is responsible for the subject matter in accordance with (or based on) the criteria” is not meaningful. It is not the same as saying that the responsible party is responsible for the subject matter <u>being</u> in accordance with the criteria.</p> <p>A responsible party could not take responsibility for the subject matter in accordance with (or based on) the criteria unless the responsible party had measured or evaluated the subject matter against the criteria. The proposed revisions to the attestation standards provide for engagements in which only the practitioner has measured or evaluated the subject matter.</p> <p>The attestation standards cannot follow a strict financial statement audit model because of the wide variety of subject matters and criteria that the attestation standards are designed to address.</p>

To address these comments, the task force proposes the following revision to the relevant paragraphs in the ED:

- 25 26** In order to establish that the preconditions for an attestation engagement are present, the practitioner should, . . . , determine the following
- b. Whether the responsible party is a party other than the practitioner and takes responsibility for the subject matter in accordance with (or based on) the criteria, or if

only the practitioner has measured or evaluated the subject matter against the criteria, takes responsibility for the subject matter.

Question for the ASB

Does the ASB agree with this proposed revision to the relevant paragraphs in the ED?

Issue 3: Party Other Than the Responsible Party or the Practitioner Measures or Evaluates the Subject Matter

Staff has raised the point that in some cases, a party other than the responsible party or the practitioner measures or evaluates the subject matter against the criteria, for example, a specialist or regulator measures the amount of greenhouse gas emissions produced by an entity. ISAE 3000 (Revised) recognizes this situation in the first bullet of paragraph A139, which addresses situations in which the measurer or evaluator is a party other than the practitioner or the responsible party. Neither the extant attestation standards nor AT-C sections 205 or 210 of the ED recognize this situation. The following matrix compares the examples in paragraph ,A69 of AT-C section 205 of the ED of circumstances in which the practitioner is unable to obtain written representations with the examples in ISAE 3000 (Revised):

ED	ISAE 3000 (Revised)	Difference
.A69 Circumstances in which the practitioner may be unable to obtain one or more requested written representations from a responsible party that is not the engaging party include, for example, the following:	A139. Circumstances in which the practitioner may not be able to obtain requested written representations include, for example, when:	In ISAE 3000, the party from whom the practitioner is unable to obtain written representations is not limited to a responsible party that is not the engaging party.
	<ul style="list-style-type: none"> The responsible party contracts a third party to perform the relevant measurement or evaluation and later engages the practitioner to undertake an assurance engagement on the resultant subject matter information. In some such cases, for example where the responsible party has an ongoing relationship with the measurer or evaluator, the responsible party may be able to arrange for the measurer or evaluator to provide requested written representations, or the responsible party may be in a position to provide such representations if the responsible party has a reasonable basis for doing so, but in other cases this may not be so. 	The ED does not include an example in which the responsible party engages an “other party” such as a specialist or regulator to measure or evaluate the subject matter and the responsible party engages a practitioner to report on the other party’s subject matter information.

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<ul style="list-style-type: none"> When the engaging party does not have a relationship with the responsible party 	<ul style="list-style-type: none"> An intended user engages the practitioner to undertake an assurance engagement on publicly available information but does not have a relationship with the responsible party of the kind necessary to ensure that party responds to the practitioner’s request for a written representation. 	<p>The ISAE specifies that the subject matter is publicly available information while the ED does not. Although the wording differs, the examples are essentially the same</p>
<ul style="list-style-type: none"> When the examination is undertaken against the wishes of the responsible party, for example when required by law or regulation 	<ul style="list-style-type: none"> The assurance engagement is undertaken against the wishes of the measurer or evaluator. This may be the case when, for example, the engagement is undertaken pursuant to a court order, or a public sector practitioner is required by the legislature or other competent authority to undertake a particular engagement. 	<p>The ISAE specifies that the engagement is undertaken against the wishes of the measurer or evaluator; whereas, the ED states that it is undertaken against the wishes of the responsible party.</p>
<p>In these or other circumstances, the practitioner may need to reconsider whether the responsible party is able or willing to take responsibility for the subject matter. Additionally, the practitioner may not have access to the evidence needed to support the practitioner’s opinion. If this is the case, paragraph .47 of this AT-C section applies. (Ref: par. .47, .69b, and .73)</p>	<p>In these or similar circumstances, the practitioner may not have access to the evidence needed to support the practitioner’s conclusion. If this is the case paragraph 66 of this ISAE applies</p>	

Question for the ASB

Should paragraph A69 of AT-C section 205 and the related paragraph in AT-C section 210 be revised to include an example in which an “other party” measures or evaluates the subject matter against the criteria?

Issue 4: Requirements That Cannot Be Implemented in Engagements in Which Only the Practitioner has Measured or Evaluated the Subject Matter Against the Criteria

Three comment letters on the ED note that certain requirements in proposed AT-C sections 205 and 210 are not meaningful in the context of an attestation engagement in which only the practitioner has measured or evaluated the subject matter against the criteria (referred to as a direct engagement in some of the comment letters) and that practitioners will have difficulty determining how to implement such requirements in a direct engagement.

Options Recommended by Commenters

The Grant Thornton comment letter identifies the following topics in AT-C section 205 as topics that contain requirements that practitioners will struggle with, or be unable to implement, in a direct attestation engagement.

- Tests of controls
- Procedures other than tests of controls
- Procedures regarding estimates
- Analytical procedures performed in response to assessed risks
- Sampling

An example would be the difficulty a practitioner would have in determining how to implement requirements related to evaluating the responsible party's process for developing estimates in a direct attestation engagement in which the responsible party had not developed any estimates.

The letter argues for a more principles-based standard that would accommodate both direct engagements and engagements in which the responsible party has measured or evaluated the subject matter against the criteria. The letter goes on to indicate that if the ASB concludes that certain requirements are not necessary for either type of attestation engagement, those requirements should be deleted; if the ASB concludes that certain requirements are not necessary for direct engagements but are necessary for engagements in which the responsible party has measured or evaluated the subject matter against the criteria, those requirements should be moved to application guidance.

The PWC comment letter recommends that additional guidance be developed to explain how these requirements would need to be adapted and applied in a direct engagement.

The D&T comment letter recommends that the ASB consider at a future date the possibility of developing a separate standard under the attestation umbrella that addresses direct engagements. D&T believes this would provide the ASB with the flexibility to be innovative, and to explore how to adapt the preexisting framework that supports engagements currently performed in accordance with AT-C sections 205 and 210.

Option Recommended by the Task Force

The ED explicitly recognizes examination and review engagements in which only the practitioner has measured or evaluated the subject matter against the criteria. ISAE 3000 (Revised) uses the term *direct engagements* to refer to such engagements and includes the following definition of that term

Assurance engagements in which the practitioner measures or evaluates the underlying subject matter against the applicable criteria and the practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the practitioner's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.

In describing the applicability of ISAE 3000 (Revised) to direct engagements, paragraph 3 of the ISAE states the following:

Assurance engagements include both attestation engagements, in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria, and direct engagements, in which the practitioner measures or evaluates the underlying subject matter against the criteria. This ISAE contains requirements and application and other explanatory material specific to reasonable and limited assurance attestation engagements. This ISAE may also be applied to reasonable and limited assurance direct engagements, adapted and supplemented as necessary in the engagement circumstances.

The task force recommends that the following paragraph (meant to parallel paragraph 3 of ISAE 3000 [Revised]) be added to AT-C section 105:

(The May 2019 drafts of paragraphs 1 and 2 of AT-C section 105 are also shown here because they already capture some of the elements in paragraph 3 of ISAE 3000[Revised]).

.01 This section applies to engagements in which a CPA in the practice of public accounting is engaged to issue, or does issue, a practitioner's examination, review, or agreed-upon procedures report on subject matter or an assertion about subject matter (hereinafter referred to as an assertion) that is the responsibility of another party. (Ref: par. **Error! Reference source not found.**)

.02 The purpose of an examination or review attestation engagement is to provide users of information with an opinion or conclusion regarding subject matter or an assertion about the subject matter, as measured against suitable and available criteria. (An examination engagement results in an opinion, and a review engagement results in a conclusion.) The purpose of an agreed-upon procedures attestation engagement is to provide users of information with the results of procedures performed by the practitioner on subject matter. An agreed-upon procedures engagement results in findings.

3. Attestation engagements include both those in which a party other than the practitioner measures or evaluates the subject matter against the criteria and those in which only the practitioner measures or evaluates the subject matter against the criteria. This section may be applied to attestation engagements in which only the practitioner measures or evaluates the subject matter against the criteria by adapting and supplementing the attestation standards as necessary in the engagement circumstances.

Proposed paragraph 3 is meant to interpret the phrase *adapting and supplementing the attestation standards* to mean the following:

- The practitioner would not be required to perform procedures that cannot be implemented in an engagement in which only the practitioner has measured or evaluated the subject matter against the criteria.
- When performing a direct attestation engagement, the practitioner should apply the requirements in the attestation standards to the procedures the practitioner performs in measuring or evaluating the subject matter against the criteria. For example, when

developing estimates in an examination engagement, the practitioner should apply the requirements in paragraphs 29-30 of AT-C section 205 in developing the estimate. This stance is based on the assumption that the practitioner should be as rigorous in measuring or evaluating the subject matter against the criteria as the practitioner is required to be when testing the responsible party's measurement or evaluation of the subject matter.

Question for the ASB

Does the ASB believe that the addition of proposed paragraph .03 to AT-C section 105 enables practitioners to adapt the attestation standards to engagements in which only the practitioner measures or evaluates the subject matter against the criteria, or is additional guidance needed?

Issue 5: Introduction of the Term *Direct Engagements*

The task force has concluded that the revised attestation standards should not include the term *direct engagements* and that the attestation standards should refer to this type of engagement as one in which only the practitioner has measured or evaluated the subject matter against the criteria.

Question for the ASB

Does the ASB agree with the decision not to include the term *direct engagements* in the attestation standards?

The Attestation Task Force is a joint task force of the ASB and the Accounting and Review Services Committee (ARSC). The Task Force is co-staffed by Mike Glynn and Judith Sherinsky and consists of the following members and observers:

Denny Ard (Co-Chair) – Member of the ARSC
Catherine Schweigel (Co-Chair) – Former member of the ASB
Marne Doman – PricewaterhouseCoopers LLP
Mike Fleming Observer - Chair of ARSC
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
Mike Santay – Chair of the ASB
Chad Singletary – Member of the ASB
Matthew Zaun – Government Accountability Office

Agenda Items Presented:

Agenda Item

5A AT-C Section 105, *Concepts Common to All Attestation Engagements*, of the ED marked to show changes resulting in the May 2019 draft

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- 5B AT-C section 205, *Examination Engagements*, of the ED marked to show changes resulting in the May 2019 draft
- 5C AT-C section 210, *Limited Assurance Engagements*, of the ED marked to show changes resulting in the May 2019 draft
- 5D AT-C section 215, *Agreed-Upon Procedures Engagements*, of the ED marked to show changes resulting in the May 2019 draft
- 5E AT-C section 215 of the ED marked to show changes from extant AT-C section 215
- 5F Summary of comments on the ED and responses