



Agenda Item 4

Discussion Memorandum: Attestation Standards

Objective of Agenda Item

To discuss and obtain feedback with respect to the following:

- A draft of proposed AT-C section 215, *Agreed-Upon Procedures Engagements*, and the revisions to AT-C section 105, *Concepts Common to All Attestation Engagements*, specific to the revised agreed-upon procedures standards, and
- Issues affecting the finalization of proposed AT-C sections 205, *Examination Engagements* and 210, *Review Engagements*, and additional revisions to AT-C section 105 specific to the revisions to AT-C sections 205 and 210

The Task Force plans to present a draft of revised AT-C sections 215 and 105 (with revisions specific to agreed-upon procedures engagements) to the ASB at its meeting in October 2019 with a request to vote to ballot those AT-C sections for issuance as a final standard. See “Strategy for Issuance of Attestation Standards” below.

Background

The Attestation Standards Task Force was formed as a joint task force of the ASB and the 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 engagements 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 – Former member of the ASB
Paul Penler – Ernst & Young LLP
Matthew Zaun – Government Accountability Office

An exposure draft entitled *Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification (ED)* was issued in July 2018. If the ED 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, 205, 210, and 215.)
- 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*. 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.

At its meeting in January 2019, the ASB discussed and provided feedback to the Task Force on comments received on the ED as well as the Task Force's preliminary thoughts on potential revisions to the ED. The ASB then considered a draft of a revised standard at its meeting in May 2019.

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 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 (Revised). However, the ASB did not adopt certain aspects of ISAE 3000 (Revised) 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 ended on March 15, 2019. The exposure draft is available at <http://www.ifac.org/system/files/publications/files/Proposed-ISRS-4400-Revised.pdf>.

In a discussion paper presented to the IAASB at its meeting in June 2019, the IAASB Task Force stated that it plans to have the first read of the post-exposure draft of ISRS 4400 (Revised) ready for presentation to the IAASB by September 2019. The first read of the post-exposure draft will be presented to the IAASB in September if time permits, or at a subsequent meeting when there is time available on the IAASB's agenda. The Task Force is working towards approval of final ISRS 4400 (Revised) in late 2019 or early 2020. The ASB's Attestation Standards Task Force does not believe that the final ISRS 4400 (Revised) will present any additional convergence challenges.

Strategy for Issuance of Revised Attestation Standards

The Task Force has presented revisions to AT-C sections 105, 205, 210, and 215 to the ASB as a bundle since May 2018. As part of the June 2019 meeting of the AITF, the ASB Chair and AICPA Chief Auditor led a discussion of a revised strategy that would potentially result in a more effective and efficient process for finalizing AT-C sections 105, 205, 210 and 215. The revised strategy involves uncoupling the proposed revisions to AT-C section 215 from the revisions to AT-C sections 205 and 210 and moving to finalize AT-C section 215 prior to finalizing AT-C sections 205 and 210. The AITF concurred with this revised strategy.

This strategy does not imply that any of the AT-C sections are being deferred. The Task Force will focus its efforts on completing the proposed revised AT-C section 215 (and necessary changes to AT-C section 105) while continuing its work to address issues remaining related to finalizing AT-C sections 205 and 210. The revised strategy is based on

- the expressed urgency for issuance of the proposed revised AT-C section 215 from (primarily) smaller firm practitioners – including, but not limited to, members of the ARSC and the Technical Issues Committee (TIC).
- the proposal to permit early implementation of the proposed revisions to AT-C section 215 but not the revisions to AT-C sections 205 and 210. The ability to early implement the proposed revisions to AT-C section 215 is recommended by both the ARSC and the TIC.

- the need to further discuss and focus on resolution of certain issues relevant to proposed AT-C sections 205 and 210 that are not relevant to proposed AT-C section 215. Those issues are presented on page 8 of this discussion memorandum.

Issue Specific to Proposed Revisions to AT-C section 215

Issue 1: Adding Specified Parties (Nonparticipant Parties)

Paragraphs .38 - .40 and .A44 of extant AT-C section 215 reads as follows:

Adding Specified Parties (Nonparticipant Parties)

- .38** If the practitioner agrees to add a nonparticipant party, the practitioner should obtain affirmative acknowledgment, normally in writing, from the nonparticipant party agreeing to the procedures performed and of its taking responsibility for the sufficiency of the procedures. (Ref: [par. .A44](#))
- .39** If the practitioner's report is reissued to acknowledge the nonparticipant party, the date of the report should not be changed. (Ref: [par. .A44](#))
- .40** If the practitioner provides written acknowledgment that the nonparticipant party has been added as a specified party, such written acknowledgment ordinarily should state that no procedures have been performed subsequent to the date of the practitioner's report.

Adding Specified Parties (Nonparticipant Parties) (Ref: [par. .38-.39](#))

- .A44** Subsequent to the completion of the agreed-upon procedures engagement, a practitioner may be requested by the engaging party to consider the addition of another party as a specified party (a nonparticipant party). The practitioner may agree to add a nonparticipant party as a specified party, based on consideration of such factors as the identity of the nonparticipant party and the intended use of the practitioner's report. If the nonparticipant party is added after the practitioner has issued the report, the report may be reissued, or the practitioner may provide other written acknowledgment that the nonparticipant party has been added as a specified party.

Requirements and guidance regarding adding specified parties was not included in the exposure draft of the proposed revised AT-C section 215. However, a recommendation to add this topic was made by a commenter in response to the ED. The Task Force, upon further consideration, is proposing that requirements and guidance of this nature should be included in the final standard. In considering how these requirements and guidance should be worded, the Task Force determined that, because the concept of specified parties that are required to agree to the procedures performed and take responsibility for the sufficiency of the procedures is not included in the proposed revised AT-C section 215, that the requirements and guidance should more closely mirror the requirements in AU-C section 905, *Alert That Restricts the Use of the Auditor's Written Communication*. The following represents how the Task Force proposes to incorporate the requirements from AU-C section 905 in proposed revised AT-C section 215:

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AU-C section 905	Proposed Revised AT-C section 215	Track to Extant AT-C section 215 requirements/guidance
<i>Adding Other Specified Parties (Ref: par. .A10)</i>	Adding Other Specified Parties (Ref: par. .A10)	
<p>.08 When, in accordance with paragraph .06, the auditor includes an alert that restricts the use of the auditor’s written communication to certain specified parties, and the auditor is requested to add other parties as specified parties, the auditor should determine whether to agree to add the other parties as specified parties. In situations covered by paragraph .06c, the auditor should not agree to add as specified parties any other parties not described in paragraph .07b.</p>	<p>.0837 When, in accordance with paragraph .06, the auditor practitioner includes an alert that restricts the use of the auditor’s written communication practitioner’s agreed-upon procedures report to certain specified parties, and the auditor-practitioner is requested to add other parties as specified parties, the auditor-practitioner should determine whether to agree to add the other parties as specified parties. In situations covered by paragraph .06c, the auditor should not agree to add as specified parties any other parties not described in paragraph .07b. (Ref: par. .A63)</p>	
<p>.09 When the auditor agrees to add other parties as specified parties, the auditor should obtain affirmative acknowledgment, in writing, from the other parties of their understanding of</p>	<p>.0938 When the auditor practitioner agrees to add other parties as specified parties, the auditor practitioner should obtain affirmative acknowledgment, in writing, from the other</p>	

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AU-C section 905	Proposed Revised AT-C section 215	Track to Extant AT-C section 215 requirements/guidance
<p><i>a.</i> the nature of the engagement resulting in the auditor's written communication,</p> <p><i>b.</i> the measurement or disclosure criteria related to the subject matter of the auditor's written communication, and</p> <p><i>c.</i> the auditor's written communication.</p>	<p>parties of their understanding of</p> <p><i>a.</i> the nature of the engagement resulting in the auditor's written communication, <u>and</u></p> <p><i>b.</i> the measurement or disclosure criteria related to the subject matter of the auditor's written communication, and</p> <p><i>c.</i> the auditor's written communication <u>practitioner's agreed-upon procedures report.</u></p>	
<p>.10 If the other parties are added after the release of the auditor's written communication, in addition to the requirements of <u>paragraph .09</u>, the auditor should take one of the following actions:</p> <p><i>a.</i> Amend the auditor's written communication to</p>	<p><u>.1039</u> If the other parties are added after the release of the auditor's written communication <u>practitioner's agreed-upon procedures report</u>, in addition to the requirements of paragraph .09 <u>paragraph .37</u>, the auditor-practitioner should take one of the following actions:</p> <p><i>a.</i> Amend the auditor's written communication <u>practitioner's</u></p>	

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AU-C section 905	Proposed Revised AT-C section 215	Track to Extant AT-C section 215 requirements/guidance
<p>add the other parties. In such circumstances, the auditor should not change the original date of the auditor's written communication.</p> <p>b. Provide a written acknowledgment to management and the other parties that such parties have been added as specified parties. The auditor should state in the acknowledgment that no procedures were performed subsequent to the original date of the auditor's written communication or the date that the engagement was completed, as appropriate.</p>	<p>auditor's <u>practitioner's</u> agreed-upon procedures report to add the other parties. In such circumstances, the auditor <u>practitioner</u> should not change the original date of the auditor's <u>practitioner's</u> written communication <u>agreed-upon procedures report</u>.</p> <p>b. Provide a written acknowledgment to management <u>the engaging party</u> and the other parties that such parties have been added as specified parties. The auditor <u>practitioner</u> should state in the acknowledgment that no procedures were performed subsequent to the original date of the auditor's <u>practitioner's</u> written communication or the date that the engagement was completed, as appropriate <u>agreed-upon procedures report</u>.</p>	<p>Paragraph .39 of extant</p> <p>Paragraph .40 of extant</p>
<p><i>Adding Other Specified Parties (Ref: par. .08-.10)</i></p>	<p>Adding Other Specified Parties (Ref: par. .08-.1037)</p>	
<p>.A10 When the auditor is requested to add other parties as specified parties, the</p>	<p>.A10A63 When the <u>practitioner</u> is requested to add other parties as specified parties, the</p>	<p>Paragraph .A44 of extant</p>

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AU-C section 905	Proposed Revised AT-C section 215	Track to Extant AT-C section 215 requirements/guidance
auditor may agree to add the other parties as specified parties based on the auditor’s consideration of factors such as the identity of the other parties and the intended use of the auditor’s written communication.	auditor-practitioner may agree to add the other parties as specified parties based on the auditor’s practitioner’s consideration of factors such as the identity of the other parties and the intended use of the auditor’s written communication practitioner’s agreed-upon procedures report .	

Action Requested of the ASB

The ASB is asked to provide its views on the proposed requirements and guidance with respect to adding specified parties to the practitioner’s agreed-upon procedures report.

Issues Affecting the Finalization of Proposed AT-C Sections 205 and 210

The following are the more significant issues that require further discussion and resolution by the ASB before finalizing AT-C sections 205 and 210. Note that there is no specific requested action for any of the following issues.

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 ISAE 3000 (Revised), examples of subject matter information are the responsible party’s statement about the *subject matter information*, the practitioner’s report, or a written presentation.

In developing the ED, the ASB decided against using the terms *subject matter information* and *underlying subject matter*. 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 parties in an attestation engagement and the effect of those activities on practitioner independence, among other matters.

At its January 2019 meeting, the ASB decided to retain the definition of the term *subject matter* (with the same definition used for *underlying subject matter* in ISAE 3000) and to add the definition of the term *subject matter information* to the definitions in AT-C section 105.

Discussions during ASB meetings indicated that the ASB members had not reached a consensus on the meaning of the term *subject matter information* and how it differs from *subject matter*. Staff believes that the meaning of the term *subject matter information* should be clarified within the attestation standards so that the standards are meaningful and capable of consistent interpretation by practitioners.

Issue 2: Reporting on the Assertion

The ED, like the extant attestation standards, permits the practitioner to report on subject matter or to report on an assertion about subject matter. When the concept of *subject matter information* is incorporated in AT-C sections 105, 205, and 210, an assertion would be considered “a form of subject matter information” based on the definition of that term. (The outcome of the measurement or evaluation of the subject matter against the criteria.)

In preparing to revise AT-C sections 105, 205, and 210, staff made the following assumptions:

- Subject matter is the phenomenon (thing) that is measured or evaluated against criteria.
- Subject matter information is the outcome of that process.
- The practitioner reports on subject matter information.
- Examples of subject matter information are the responsible party’s statement about the subject matter information, the practitioner’s report, or a written presentation.
- An assertion is a statement about the subject matter information made by the responsible party and thus is a form of subject matter information, so even when the practitioner is reporting on an assertion, the practitioner is reporting on subject matter information.

Issue 3: Requirement to Request an Assertion In Certain Circumstances

One of the objectives of the ED is to eliminate the requirement for a practitioner to request a written assertion from the responsible party when performing an attestation engagement. (See Issue 2 above for discussion of “assertions”.) Paragraph .A10 of the ED (shown below) identifies instances in which the practitioner may be required to request a written assertion from the responsible party.

.A10 If relevant, the practitioner may include in the engagement letter the responsible party’s acknowledgment that it intends to measure or evaluate the subject matter against the criteria and provide the practitioner with a written assertion. An assertion may be needed, for example, to do the following:

- To comply with the terms of the engagement, for example, an engagement in which management has engaged the practitioner to report on management’s assertion
- To comply with the requirements of a law, regulation, or contract

- To comply with the requirements of an AT-C section, such as AT-C section 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*

Some ASB members believe there are other circumstances in which the practitioner may determine it is necessary to request a written assertion from the responsible party. This view appears to conflict with the general assumption underlying the ED, which is that a practitioner is required only to obtain sufficient appropriate evidence to express an opinion or conclusion on the subject matter information. An assertion from the responsible party does not provide evidence and therefore it should not be necessary to obtain an assertion to perform the engagement.

In addition, some practitioners have questioned the rationale for the requirement to request a written assertion in examination engagements performed under AT-C section 320. What is it about these engagements that makes it necessary to obtain an assertion?

It should be noted that nothing in the ED precludes a practitioner from requesting a written assertion in an attestation engagement.

Agenda Items Presented:

- Agenda item 4A Proposed revised AT-C section 215, *Agreed-Upon Procedures Engagements* – redline to show changes from May 2019 draft
- Agenda item 4B Proposed revised AT-C section 105, *Concepts Common to All Attestation Engagements* – redline to show changes from May 2019 draft
- Agenda item 4C Proposed revised AT-C section 105, *Concepts Common to All Attestation Engagements* – redline to show changes from exposure draft