



Agenda Item 9

Discussion Memorandum Revision of AT-C Sections 105, *Concepts Common to All Attestation Engagements*; 205, *Examination Engagements*; and 210, *Review Engagements*

Objective of Agenda Item 9

To discuss a proposal that would

- enable practitioners to perform direct examination and review attestation engagements by introducing that option in AT-C section 105, *Concepts Common to All Attestation Engagements*, and
- retain the performance of traditional assertion-based examination and review engagements under AT-C sections 205, *Examination Engagements*, and 210, *Review Engagements*

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Background

Under the extant attestation standards, a practitioner who is unable to obtain a written assertion from the responsible party in an examination or review engagement is required to withdraw from the engagement, unless the engaging party is not the responsible party. The ASB has undertaken a project to create a set of attestation standards that would enable a practitioner to examine or review subject matter when the responsible party has not measured or evaluated the subject matter or does not provide an assertion (a direct engagement). This project is deemed to be important because it provides practitioners with greater flexibility to serve clients who are unable to, or do not have the competencies to, measure or evaluate specified subject matter against criteria.

In July 2018 the ASB issued an exposure draft *Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification* (ED) that, in part, would have revised AT-C sections 105, 205, and 210 to provide for direct engagements.¹ Most ASB members support enabling the performance of direct engagements, but some of these members do not support a proposal that would eliminate the traditional examination and review engagements presented in the extant attestation standards.

Since exposure of the ED, the Attestation Task Force (task force) has presented various proposals and drafts of AT-C sections 105, 205, and 210 to the ASB in an attempt to provide for direct engagements. These efforts have often met with significant issues being raised by some ASB members.

In order to move this project forward, the Attestation Task Force has developed a proposal that would enable practitioners to perform direct examination and review attestation engagements by introducing that option in AT-C section 105, while also retaining the option of performing traditional assertion-based examination and review engagements in accordance with AT-C sections 205 and 210. In summary, the proposal provides for direct engagements in AT-C section 105 and instructs the practitioner to adapt and apply AT-C sections 205 and 210 to direct examination and review engagements, respectively. Application guidance is provided in AT-C section 105 that explains this approach. The IAASB International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, uses a similar approach. This proposal also allows firms choosing to require an assertion from the responsible party, as is current practice, to do so under AT-C sections 205 or 210, which would not contain requirements and guidance related to direct engagements, thus eliminating any confusion that could result from enabling both types of engagements in AT-C sections 205 and 210.

The proposal described in the preceding paragraph would leave AT-C sections 205 and 210 substantially unchanged from extant.

The following are the agenda materials for the discussion of the attestation standards:

Item 9A A draft of AT-C section 105 as amended by SSAE No. 19, *Agreed-Upon Procedures Engagements*, marked to

- provide for direct engagements
- introduce the concepts of *underlying subject matter* and *subject matter information* to converge with ISAE 3000 (Revised,) and clarify that in an examination or review engagement, the responsible party is responsible for the underlying subject matter (the phenomenon that is measured or evaluated by applying criteria) and the practitioner or the responsible party is responsible for

¹ The exposure draft *Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification* also proposes revision to AT-C section 215, *Agreed Upon Procedures Engagements*. In November 2019 the ASB issued SSAE No. 19 *Agreed Upon Procedures Engagements*, which finalized that portion of the project.

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the subject matter information (the outcome of the measurement or evaluation of the underlying subject matter against the criteria)

Issues Related to the Attestation Standards

Issue 1: What is the Value of an Assertion?

The last sentence of proposed paragraph .A2 of AT-C section 105 states, “The fact that the practitioner does not obtain an assertion in a direct engagement does not prevent the practitioner from achieving the required level of assurance because an assertion is not evidence.”

In prior ASB discussions regarding the value of an assertion in examination and review engagements, the following points were frequently made:

- The responsible party should “go first” (perform the measurement or evaluation and then provides a written assertion) because doing so enables two parties (the practitioner and the responsible party) to evaluate the same underlying subject matter. This increases the likelihood that misstatements will be identified. Many would agree with this, but it is true only when the responsible party is capable of measuring or evaluating the underlying subject matter and identifying misstatements.
- The responsible party’s measurement or evaluation and written assertion demonstrate “ownership” of the underlying subject matter and therefore establish that the practitioner is independent. The AICPA Professional Ethics Executive Committee has indicated that in an attestation engagement, a practitioner must be independent of the *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*.
- Asking the responsible party to provide an assertion reminds the responsible party of its responsibility for the underlying subject matter and encourages the responsible party to do a better job of measuring or evaluating the underlying subject matter. It signals to the responsible party that if the subject matter information is materially misstated and report users are harmed, the responsible party will be held responsible. The belief is that the responsible party’s assertion provides some protection for the practitioner if litigation occurs. Members of the ASB who are attorneys have reported that there is little or no case evidence to support this premise. If misstatements in the subject matter information remain after the practitioner performs the attestation engagement and reports accordingly, an assertion obtained from the responsible party is of no value in litigation against the practitioner.

Questions for the ASB

Should AT-C sections 205 and 210 continue to require the practitioner to request a written assertion from the responsible party. If so, what is the rationale for continuing this practice? Is an “assertion” evidence?

Issue 2: Adapting Requirements in AT-C Section 205 to a Direct Engagement

Certain required procedures in extant 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 (i.e., a direct engagement). For example, a requirement for the practitioner to evaluate whether the responsible party has appropriately applied the requirements of criteria relevant to any estimated amounts in an engagement in which the responsible party has not developed the estimates.

To address that issue, paragraph A2 has been added to the draft of AT-C section 105, which instructs the practitioner to obtain the same level of assurance in a direct engagement as the practitioner does in an assertion-based engagement. To achieve the required level of assurance, based on practitioner judgment, the practitioner performs procedures to address what the responsible party has not done. Paragraph .A2 is shown below. In any case, the procedures performed by the practitioner to “test” whether the responsible party has appropriately applied the requirements of the criteria relevant to any estimated amounts are likely substantially similar to the procedures the practitioner would perform if the practitioner is directly measuring the estimated amounts.

Applying the Attestation Standards to Direct Engagements (Ref: par. Error! Reference source not found.)

A2. The practitioner’s objective in a direct examination engagement is to obtain reasonable assurance, and in a direct review engagement, to obtain limited assurance, just as it is in the related assertion-based engagements. In a direct examination or review engagement, the required level of assurance is the benchmark for determining how AT-C sections 205 and 210 may need to be adapted. For example, paragraph .29 of AT-C section 205 requires the practitioner to evaluate whether the responsible party has appropriately applied the requirements of criteria relevant to any estimated amounts. If the responsible party has not developed the estimates, the practitioner could develop and report on the estimates (i.e., a direct engagement). The practitioner would exercise the due care, integrity, and objectivity required by the AICPA Code of Professional Conduct in developing the estimate. In a direct engagement, the outcome of the measurement or evaluation of the underlying subject matter is determined by the practitioner, but the underlying subject matter remains the responsibility of the responsible party. The fact that the practitioner does not obtain an assertion in a direct engagement does not prevent the practitioner from achieving the required level of assurance because an assertion is not evidence.

Question for the ASB

Does the ASB believe that the approach put forth in the current draft of AT-C section 105 to enable direct engagements is sufficient for purposes of introducing direct engagements in the attestation standards?

Issue 3: Underlying Subject Matter and Subject Matter Information

The extant attestation standards define the term *subject matter* as the phenomenon that is measured or evaluated by applying criteria. ISAE 3000 (Revised) incorporates the concepts of *subject matter information* (SMI) and *underlying subject matter* (USM) and defines those terms as shown below.

underlying subject matter. The phenomenon that is measured or evaluated by applying criteria

subject matter information .The outcome of the measurement or evaluation of the underlying subject matter against the criteria.

The proposed drafts of AT-C sections 105 and 205 included in these agenda materials also incorporate these terms. It should also be recognized that in enabling direct engagements, a differentiation between USM and SMI is necessary as the practitioner only needs to be independent of the USM.

Additionally, the phrase “subject matter or an assertion” is used frequently in extant AT-C sections 105, 205 and 210. An assertion meets the definition of SMI as used in ISAE 3000. If a practitioner wishes to report on SMI in the form of an assertion, the practitioner could do so as an option that could be included in the reporting section of AT-C sections 205 and 210.

Question for the ASB

Does the ASB support use the terms USM and SMI in the attestation standards for the reasons stated above? Should the phrase “reporting on SM or an assertion” be replaced with the phrase “reporting on USM or SMI,” because an assertion is SMI?