



AUDITING STANDARDS BOARD (ASB)

Meeting Highlights

August 12, 2020

Videoconference

MEETING ATTENDANCE

ASB Members

Tracy Harding, *Chair*

Brad Ames

Monique Booker

Patricia Bottomly

Joseph Cascio

Sherry Chesser

Harry Cohen

Jeanne Dee

Horace Emery

Audrey Gramling

Robert Harris

Kathy Healy

Jon Heath

Clay Huffman

Kristen Kociolek

Sara Lord

Maria Manasses

Chris Rogers

Tania Sergott

AICPA Staff

Bob Dohrer, *Chief Auditor—Professional Standards & Services*

Linda Delahanty, *Senior Technical Manager—A&A Standards*

Mike Glynn, *Senior Technical Manager—A&A Standards*

Ahava Goldman, *Associate Director—A&A Standards*

Hiram Hasty, *Associate Director—A&A Standards*

Judith Sherinsky, *Senior Technical Manager—A&A Standards*

Andy Mrakovic, *Technical Manager—A&A Standards*

Note: The meeting was open to observers, whose names are not listed.

1. Attestation Standards

Ms. Dee, chair of the Attestation Standards Task Force, reviewed the revisions made since the July ASB meeting to the drafts of AT-C section 105, *Concepts Common to All Engagements*, and to a proposed new attestation section designated as AT-C section 206, *Direct Examination Engagements*. The ASB also discussed the nonauthoritative exhibit of illustrative reports and suggested some revisions.

The ASB voted 17-2 to ballot the proposed attestation standard for issuance as a final standard. Harry Cohen and Tania Sergott dissented, for the reasons stated below.

The ASB agreed that due process had been followed and that re-exposure was not needed.

Dissents

Harry Cohen –Reasons for dissent to final issuance of SSAE No. 21, *Direct Examination Engagements*

In creating a standard to provide a direct examination service, the Board's stated objective was to permit practitioners to both measure and opine on the subject matter against criteria without requiring an assertion. These are substantive changes from the requirements of the current attestation standards and are intended to provide the practitioner with greater flexibility to effectively meet the needs of constituents.

Conceptually, I support direct examinations as a service, and I acknowledge the robust Board deliberations, including consideration of feedback from constituent comment letters. However, I have remaining concerns with the reporting requirements, which do not provide adequate guardrails to support the consistent application of reporting on the nature of the engagements and the responsibilities of the responsible party versus the practitioner. Specifically:

- Paragraph 12(g) should include an explicit requirement to report that management is not required to and did not provide an assertion. While this enhancement to the requirement was discussed in the Board's final deliberation, I do not believe there was enough consideration given to the requirements of the standard itself and how they would manifest themselves in the practitioner's reporting of the engagement. I believe that understanding and evaluating the deliverables of an engagement, and in this case an opinion, is fundamental for determining whether the standard will lead practitioners to a relatively consistent conclusion given the same facts and circumstances. From my perspective, this was the reason for the Board's insistence that illustrative reports, albeit non-authoritative, be developed concurrently and issued contemporaneously with the issuance of the final standard as a measure of whether the standard could be applied to a circumstance.
- Illustrative reports – while the illustrative reports as exhibits are non-authoritative, I believe the Board's consideration of the final illustrative reports, is meaningful relative to the sufficiency and appropriateness of the requirements and application guidance in the standard relative to the reporting. As of the date of balloting on this SSAE, an example is still not complete. To me, the fact that an illustrative report was substantively edited and debated up to voting to ballot, and is not finalized, is an indication of potential challenges practitioners may face if the reporting requirements of the standard are not sufficiently clear and robust. Further, this consideration is especially meaningful considering this standard introduces a new service and the importance of appropriately differentiating an assertion-based examination from a direct examination service, when the level of assurance is considered equal.

Ultimately, I believe additional consideration of the reporting requirements, including consideration of a final illustrative report, to address my concerns is in the public interest and

any impact on the timing of such consideration would not have significantly impacted the finalization of the standard. In addition, the benefits resulting from the suggested enhancement to the reporting requirements would increase the likelihood that the ultimate users of the report would understand the nature of the service and the absence of an assertion in the instance of a direct examination, are necessary.

Tania Sergott - Reasons for dissent to final issuance of SSAE No. 21, *Direct Examination Engagements*

Given the extent of debate and deliberations during the July 2020 ASB meeting of concepts that are fundamental to the usability and understandability of SSAE 21, I am concerned the final standard is not sufficiently clear to enable consistent application by practitioners or transparent reporting to users.

There is long-standing acceptance in the marketplace as to “what an examination is” (the traditional assertion-based examination). In a direct examination engagement, the practitioner is both “measuring” and “providing assurance” on that measurement, which is a significantly different premise to an assertion-based engagement and is a new concept for the marketplace. For some, this may be confusing given the procedures performed “to measure” are similar to those performed “to obtain evidence of proper measurement.” Accordingly, it is critical to be clear in distinguishing the procedures required and reporting differences between the two types of engagements.

I am concerned that practitioners will not understand the concept of “adapting and applying” AT-C Section 205, *Assertion-Based Examination Engagements* (AT-C 205) as part of an engagement conducted in accordance with AT-C Section 206, *Direct Examination Engagements* (AT-C 206). While this is stated as a premise of AT-C 206, practitioners:

- 1) may not appreciate significance of considering both sections together,
- 2) may not understand the table in application material which maps only a select number of requirements between AT-C 205 and AT-C 206, and
- 3) without further guidance on how to “adapt and apply,” may not adapt the requirements of AT-C 205 appropriately.

Any of these unintended consequences may result in performance of insufficient procedures on which to base the practitioner’s opinion.

During Board deliberations, we were able to reach agreement on the nuances and varied meanings of terms used in the new SSAE. Armed with that background, the intention behind each word is clear to me and SSAE 21 as a whole makes sense. However, I am concerned that, without being privy to these discussions and without that specific inside knowledge, it may not be clear to practitioners what procedures are required and what content should be included in the report.

While the AICPA staff of the Ethics Division plans on issuing guidance on how the current AICPA Code of Ethics (the “Code”) would allow for practitioners to perform direct examination engagements without impairing independence, I believe that it would have been preferable for the ASB to work directly with the Professional Ethics Executive Committee (PEEC) of the AICPA to review applicable provisions of the Code and confirm that there would be no revisions necessary or unintended consequences of introducing new terms (i.e., underlying subject matter and subject matter information) into professional standards.

While I am dissenting to the issuance of the final SSAE 21, I fully support expanding the suite of attestation services, as it provides practitioners with new growth opportunities, clients with assistance in areas where they may not have expertise, and users with valuable information that they can rely on. I am hopeful that the implementation guidance AICPA staff develops to accompany the new standard will assist users in understanding the practical application of SSAE 21 and that the AICPA staff and ASB will coordinate with PEEC to make any adjustments necessary to clarify independence concerns if they arise.