



Agenda Item 1

Discussion Memorandum: Proposed Revised AT-C section 210

Objective of Agenda Item

To vote to issue the proposed revisions to AT-C section 210, *Review Engagements* as a final Statement on Standards for Attestation Engagements (SSAE).

Attestation Standards Task Force

Jeanne Dee, Chair – Member of the ASB
Denny Ard – Chair of ARSC
Marne Doman – PricewaterhouseCoopers LLP
Kathleen Healy – Member of the ASB
David Johnson – Former ARSC member; Baker Tilly LLP
Michael Manspeaker – Member of TIC
Paul Penler – Ernst & Young LLP
Cathy Schweigel – Former ASB member; CliftonLarsonAllen LLP
Chad Singletary – Former ASB member; Carr, Riggs & Ingram, LLC
Matthew Zaun – Government Accountability Office

The Task Force is staffed by Judith Sherinsky and Mike Glynn.

Background of Project to Revise AT-C section 210

At its meeting in July 2020, the ASB voted to issue the proposed revisions to AT-C sections 105, *Concepts Common to All Attestation Engagements*, and 205, *Examination Engagements*, and proposed AT-C section 206, *Direct Examination Engagements*, as a final SSAE. That SSAE was issued as SSAE 21, *Direct Examination Engagements*.

The issuance of SSAE 21 was the result of a multi-year process that included the issuance of an exposure draft *Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification (ED)* in July 2018.¹ In addition to the proposed revisions to provide for direct examination engagements, the ED also proposes additional revisions to AT-C section 210 to, among other things:

¹ The exposure draft is available at <https://www.aicpa.org/content/dam/aicpa/research/exposedrafts/accountingandauditing/downloadabledocuments/20180711/20180711a-ed-ssae-18-revisions.pdf>

- Describe the types of procedures, in addition to inquiry and analytical procedures, that a practitioner may perform in a review engagement. These procedures are much the same as the procedures a practitioner may perform in an examination engagement, except that the nature, timing, and extent of those procedures are tailored to a review engagement.
- Require that the practitioner's report include an informative summary of the work performed as a basis for the practitioner's conclusion.
- Permit the expression of an adverse conclusion.²

Since issuance of the ED, the Task Force presented to the ASB numerous proposals and drafts, including revisions to AT-C section 210, to enable direct engagements. At its October 2019 meeting, the ASB concluded that extant AT-C sections 205 and 210 should remain substantially unchanged to retain the practitioner's option to perform traditional assertion-based examination and review engagements and that a new AT-C section should be developed to provide for direct engagements. Subsequently, at its meeting in January 2020, some ASB members questioned the feasibility of a direct review engagement because of a concern that appropriate review procedures, primarily consisting of analytical procedures and inquiries, may be inadequate to actually measure or evaluate the underlying subject matter against criteria in the absence of a measurement or evaluation by the responsible party. After the January 2020 meeting, due to the concerns raised by some ASB members, the Task Force decided to propose revisions to AT-C section 210 after the issuance of SSAE 21.

The most recent draft of proposed revised AT-C section 210 was presented to the ASB at its meeting in May 2019. That draft pre-dates the development of what became AT-C section 206 and includes the concept of a direct review within AT-C section 210. The draft presented as Agenda item 1B is marked for revisions primarily for consistency with revised AT-C section 205 and to permit the expression of an adverse conclusion. At its meeting in January 2019, the ASB directed that the issue of adverse conclusions be considered in conjunction with related changes that the Accounting and Review Services Committee (ARSC) may make to AR-C section 90, *Review Engagements* with respect to reviews of historical financial statements. The ARSC issued Statement on Standards for Accounting and Review Services No. 25, *Materiality in a Review of Financial Statements and Adverse Conclusions* in February 2020 which, among other things, revised AR-C section 90 to permit the expression of an adverse conclusion in a review of financial statements.

The following is a summary of the revisions to extant AT-C section 210 included in the current draft:

To describe the types of procedures a practitioner may perform in a review engagement

² The exposure draft *Revisions to Statement on Standards for Attestation Engagements No. 18*, Attestation Standards: Clarification and Recodification also included proposed revisions to AT-C section 215, *Agreed Upon Procedures Engagements*. In December 2019 the ASB issued SSAE No. 19, *Agreed Upon Procedures Engagements*, finalizing that portion of the project.

The addition of the following application paragraph linked to the requirement in paragraph .18a that, based on the practitioner's understanding of the subject matter and other engagement circumstances (obtained pursuant to paragraph .13), the practitioner should identify areas in which a material misstatement of the subject matter is likely to arise and design and perform procedures to address such areas to obtain limited assurance to support the conclusion in the practitioner's report.

.A25 In a review, procedures generally are limited to inquiries and analytical procedures. However, analytical procedures may not be possible when the subject matter is qualitative, rather than quantitative. In circumstances in which inquiry and analytical procedures are not expected to provide sufficient appropriate review evidence, or when the nature of the subject matter does not lend itself to the application of analytical procedures, the practitioner may perform other procedures that the practitioner believes can provide the practitioner with a level of assurance equivalent to that which inquiries and analytical procedures would have provided. If the practitioner cannot design other procedures to obtain sufficient appropriate review evidence, a review may not be appropriate.

This proposed paragraph is unchanged from the draft that the ASB considered in May 2019.

To require that the practitioner's report include an informative summary of the work performed as a basis for the practitioner's conclusion

The addition of the following application paragraphs linked to proposed paragraph .47k which would require that the practitioner's review report include a description of the work performed as a basis for the practitioner's conclusion:

- .A80** The summary of the work performed helps the intended users understand the basis for the practitioner's conclusion. The summary may be as brief as "the procedures we performed were based on our professional judgment and consisted primarily of analytical procedures and inquiries" or may be more detailed. Factors to consider in determining the level of detail to be provided in the summary of the work performed may include the following:
- Circumstances specific to the entity (for example, the differing nature of the entity's activities compared to those typical in the industry)
 - Specific engagement circumstances affecting the nature and extent of the procedures performed
 - The intended users' expectations of the level of detail to be provided in the report, based on market practice, or applicable law or regulation
- .A81** It is important that the summary be written in an objective way that allows intended users to understand the work done as the basis for the practitioner's conclusion. In most cases, this will not involve detailing the entire work plan. On the other hand, it is important that the description of the work neither be so summarized as to be vague or ambiguous, nor written in a way that is overstated or embellished.
- .A82** The exhibit to this section includes examples of practitioner's review reports including summaries of procedures performed.

The proposed paragraphs are unchanged from the draft that the ASB considered in May 2019.

To permit the expression of an adverse conclusion

The addition of the following definition of *modified conclusion* in paragraph .04 of AT-C section 210:

Modified conclusion. A qualified or an adverse conclusion.

Proposed paragraph .58 requires the practitioner to express an adverse conclusion when the practitioner, having obtained sufficient appropriate evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the subject matter. Proposed paragraph .A100 provides the following example of an adverse conclusion:

Adverse conclusion (an example for a material and pervasive misstatement). “Because of the significance of the matter described in the Basis for Adverse Conclusion section of our report, the [appropriate party’s] statement does not present fairly the entity’s compliance with XYZ law.”

In addition, an illustrative review report expressing an adverse conclusion is presented as Example 4 to the Exhibit at the end of the proposed revised AT-C section 210.

Direct Review Engagements

At this time, the ASB is not being asked to consider whether the attestation standards should be revised to provide for a direct review engagement. The Task Force will continue its considerations with respect to direct review engagements and plans to present a discussion paper for ASB consideration at its meeting in January 2021.

Agenda Materials Presented

Agenda Item 1A: Proposed revised AT-C section 210 marked from extant (margin-to-margin format)

Agenda Item 1B: Proposed revised AT-C section 210 marked from the draft presented to the ASB in May 2019 (side-by-side format)

Ms. Dee will refer to agenda item 1A in presenting the proposed revised AT-C section 210 to the ASB.