



Agenda Item 4

Discussion Memorandum: Direct Review Engagements

Objective of Agenda Item

To continue the discussion of potentially revising the attestation standards to

- Provide for direct review engagements
- Eliminate the prohibition on reviews of prospective financial information; internal control; and compliance with requirements of specified laws, regulations, rules, contracts, or grants.

Attestation Standards Task Force

Jeanne Dee, Chair – Member of the ASB
Denny Ard – Chair of ARSC
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Marne Doman – PricewaterhouseCoopers LLP
Michael Manspeaker – Member of TIC
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Laura Schuetze – Grant Thornton LLP
Michael Westervelt – Member of ARSC
Matthew Zaun – Government Accountability Office

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

Background of Project to Revise the Standards for Examinations and Attestation Reviews

The following provides historical background of actions and decisions made by the ASB related to direct examinations and reviews:

- In July 2019, the ASB issued an exposure draft of proposed revisions to the attestation standards entitled *Revisions to Statement on Standards for Attestation Engagements No.*

18, Attestation Standards: Clarification and Recodification (ED).¹ The most important aspects of the proposed SSAE, are that it would:

1. No longer require the practitioner to request a written assertion from the responsible party when the practitioner is reporting directly on the subject matter in an examination or review engagement or when performing an agreed-upon procedures engagement.
 2. More closely harmonize AT-C Section 210, *Review Engagements*, with the limited assurance provisions of International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits and Reviews of Historical Financial Information*. The proposed revisions to AT-C section 210 would more explicitly describe the types of procedures 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. Finally, 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.
 3. Revise the agreed-upon procedures section by
 - No longer requiring that all the parties to the engagement (the engaging party, the responsible party [where applicable], and users of the practitioner's report) agree to the procedures to be performed and, therefore, take responsibility for their sufficiency. Instead, the proposed revision would require that the engaging party acknowledge, prior to the issuance of the report, the *appropriateness* of the procedures for the intended purpose of the engagement, and would explicitly allow the practitioner to develop, or assist in developing, the procedures
 - Allowing the practitioner to issue a general use report
- 39 comment letters were received from a variety of interested parties including large international networks/firms, smaller firms, state societies, and regulators.²
 - The ASB issued SSAE No. 19, *Agreed-Upon Procedures Engagements* in December 2019. The issuance of SSAE No. 19 finalized the proposals in item 1 (with respect to agreed-

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>

² All comment letters on the exposure draft are available at <https://www.aicpa.org/content/dam/aicpa/research/exposedrafts/accountingandauditing/comment-letters-on-proposed-ssae-no-18.html> and a summary of the comment letters is available at <https://www.aicpa.org/content/dam/aicpa/research/standards/auditattest/asb/documents/mtg/1901/2019-01-asb-item4b.pdf>.

upon procedures engagements) and item 3. The ASB continued to consider the proposals in item 1 (with respect to examination and review engagements) and in item 2.

- The ASB issued SSAE No. 21, *Direct Examination Engagements* in October 2020. The issuance of SSAE No. 21 finalized the proposal included in item 1 with respect to examination engagements. The ASB continued to consider the proposal in item 1 with respect to review engagements and the proposal in item 2.
- The ASB issued SSAE No. 22, *Review Engagements* in December 2020. The issuance of SSAE No. 22 finalized the proposal in item 2.

After issuance of SSAE No. 22, the only proposal in the exposure draft that has not been issued as a final standard is the proposal in item 1 to no longer require the practitioner to request a written assertion from the responsible party when the practitioner is reporting directly on the subject matter in a review engagement. With respect to that proposal, the following are the key decisions that the ASB has made at previous meetings:

- 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 examination and review engagements.
- At its January 2020 meeting, 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 measure or evaluate the underlying subject matter against the 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 defer revising AT-C section 210 until after the issuance of SSAE No. 21.
- At the ASB's January 2021 meeting, the Task Force presented certain concepts associated with proposed revisions to the attestation standards to provide for direct review engagements as well as to eliminate the prohibition on reviews of prospective financial information; internal control; and compliance with requirements of specified laws, regulations, rules, contracts, or grants. The ASB directed the Task Force to reach out to practitioners in countries that have established standards for performing direct limited assurance engagements to gain an understanding of how such engagements are performed in those jurisdictions.

With respect to the prohibition against performing a review on (a) prospective financial information; (b) internal control; or (c) compliance with requirements of specified laws, regulations, rules, contracts, or grants, the initial Board reaction was that the prohibitions should be retained but that it would continue to consider this issue.

Outreach to International Practitioners Who Have Performed Direct Limited Assurance Engagements

Outreach to CPA Canada

Staff reached out to various jurisdictions that may be performing direct limited assurance engagements. To date, CPA Canada has been the only jurisdiction that has agreed to discuss the issue with the Task Force.

On March 26, 2021, the Attestation Standards Task Force, staff, Tracy Harding (Chair of the ASB), and Jennifer Burns (Chief Auditor) met virtually with two representatives of CPA Canada.

The Canadian representatives advised the Task Force that the Canadian equivalent of the AT-C literature is primarily contained in:

- Canadian Standard on Assurance Engagements (CSAE) 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*
- CSAE 3001, *Direct Engagements*

CSAE 3000 is the equivalent of the AT-C literature for *assertion-based examination and review engagements*. In addition, the Canadian literature includes the following standards that address assurance engagements on compliance:

- CSAE 3530, *Attestation Engagements to Report on Compliance*
- CSAE 3531, *Direct Engagements to Report on Compliance*

Both CSAE 3530 and CSAE 3531 apply to reasonable and limited assurance engagements. These standards have been in effect since approximately April 1, 2019.

The following are some of the views and observations shared by the Canadian representatives:

- The Canadian direct engagement standard was developed because direct engagements are prevalent in the Canadian public sector (similar to GAGAS performance audits in the United States) and there was concern that the guidance for performing these engagements under ISAE 3000 (Revised) was insufficient.³
- There is limited application of the limited assurance service in general (for both assertion-based and direct engagements). However, they do envision growing opportunities for limited assurance engagements. For example, as the demand for engagements on environmental, social, and corporate governance (ESG) continue to increase, opportunities for limited assurance engagements may also increase.

³ Paragraph 2 of ISAE 3000 (Revised) states, in part, “This ISAE may also be applied to reasonable and limited assurance direct engagements, adapted and supplemented as necessary in the engagement circumstances.”

- Many of the direct engagements that the Canadian representatives are aware of are direct examinations related to technology. Certain of these involve two responsible parties. The example provided by the Canadian representatives is an engagement in which the subject matter is government lotteries, where one entity is responsible for manufacturing and programming the software of the machine, and the government is responsible for using the machine to conduct the drawing. The government wants comfort that the machine is operating as intended. When there are two responsible parties, it may be more difficult to obtain an assertion or develop/agree on the criteria.
- There needs to be better guidance on how to perform a limited assurance engagement.
- There appears to be a demand for a service in which a practitioner issues a report that discloses the procedures performed and provides a conclusion. Because the limited assurance (review) report is required to include a description of the procedures performed, the demand for limited assurance engagements (either assertion-based or direct) may increase.
- The determination as to whether the practitioner has obtained limited assurance is based on professional judgment. Experience is key to understanding “how much is enough” and experience has been “you know it when you see it.”
- As practitioners are engaged to perform attestation engagements on subject matter that is less defined or more complex (for example, artificial intelligence or a complex system), the scope, work effort, and cost may be such that the practitioner may be more comfortable performing a limited assurance engagement.

Outreach to Task Force member network firms

Most Task Force members are not aware of their firms performing direct examination or review engagements, other than the regulatory single user engagements performed in Canada and Australia.

One Task Force member was made aware of the following by a South African network firm. In most instances, a law or regulation requires the entity to obtain a practitioner’s reasonable or limited assurance report that relates to whether the subject matter complies with the applicable law or regulation. The regulator, with input from stakeholders, develops a guide and illustrative report templates for auditors performing these engagements. The guides provide insight into the extent of work that the auditor should perform to be able to express a (limited assurance) conclusion or an (reasonable assurance) opinion.

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Description	Level of assurance	Link
Legal practitioner trust accounts	Reasonable	Guide for Registered Auditors: Engagements on Legal Practitioners' Trust Accounts (Revised March 2020) ⁴
Assurance Engagements on Financial Service Providers' Separate Accounts (Section 19(3)) and Reporting Requirements (Section 19(4)) of the Financial Advisory and Intermediary Services Act	Limited	Revised Guide for Registered Auditors: Assurance Engagements on Financial Service Providers' Separate Accounts ⁵
Fresh produce agent's trust accounts	Reasonable	Guide for Registered Auditors: Assurance Engagements on Fresh Produce Agents' Trust Accounts ⁶

Discussion of Issues With ASB

Providing for a direct review engagement

As discussed previously with the ASB, other than engagements to review sustainability information, AT-C section 210 is not commonly used. Given the current focus on sustainability, there may be an increase in demand for such services.

The Task Force has developed the following pros and cons related to enabling direct review engagements:

⁴ Available at

https://www.irba.co.za/upload/Guide%20for%20RAs_Engagements%20on%20LP%20Trust%20Accounts%20Revised%20March%202020.pdf

⁵ Available at

[https://www.irba.co.za/upload/Revised%20Guide_Assurance%20Eng%20on%20FSP%20Separate%20Accounts%20S19\(3\)%20and%20S19\(4\)%20of%20the%20FAIS%20Act.pdf](https://www.irba.co.za/upload/Revised%20Guide_Assurance%20Eng%20on%20FSP%20Separate%20Accounts%20S19(3)%20and%20S19(4)%20of%20the%20FAIS%20Act.pdf)

⁶ Available at

https://www.irba.co.za/upload/Final_Guide%20for%20RAs_Engagements%20on%20Fresh%20Produce%20Agents'%20Trust%20Accounts.pdf

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Pros	Cons
Convergence with international standards, recognizing that ISAE 3000 (Revised) does not provide requirements/guidance for direct engagements beyond “adapt as necessary.”	Potential confusion for users when procedures identified in the practitioner’s report are like those performed in an examination engagement but are less in extent
Would permit the practitioner to perform a limited assurance engagement in situations in which (1) the responsible party is unable to perform the initial measurement or evaluation, (2) the responsible party is otherwise unable or unwilling to provide an assertion, or (3) responsibility for the subject matter is spread among multiple parties and no one party is willing or able to provide an assertion. Currently, the practitioner would be required to withdraw from the engagement or, as an alternative, perform a direct examination, an agreed-upon procedures engagement, or a consulting engagement.	In situations in which the responsible party is unable to (or otherwise does not) perform the initial measurement or evaluation of the underlying subject matter, the practitioner’s limited procedures may not result in a report that would satisfy users. May be challenging to conclude that limited assurance has been obtained.
Growing demand possible with respect to attestation review engagements in which management does not have to provide an assertion	Given the limited utilization of AT-C section 210, there is an unclear market demand for (direct) review engagements
Provides for an additional alternative service when the practitioner determines that obtaining reasonable assurance is problematic	If a practitioner determines that obtaining reasonable assurance is problematic, obtaining limited assurance may be equally problematic.
Provides an additional alternative when client wants a service beyond an agreed-upon procedures engagement and less than an examination	<i>Limited assurance</i> is often misunderstood by practitioners.

ASB Consideration

ASB is asked to provide additional feedback to the Task Force to be considered as it drafts the direct review standard for consideration by the ASB at a subsequent meeting.

Permitting the performance of a review engagement on certain subject matter

Paragraph .07 of AT-C section 210 states the following:

A practitioner should not perform a review of

- a. prospective financial information,

- b. internal control, or
- c. compliance with requirements of specified laws, regulations, rules, contracts, or grants.

Although prohibited from performing a review of the aforementioned subject matters, a practitioner is permitted to examine those subject matters.

In December 2019 and January 2020, representatives of the Task Force and the ASB had discussions with former AICPA and ASB members who were actively involved in the development of the attestation standards to obtain the history of these prohibitions. The Task Force/ASB representatives learned the following:

- The prohibition on a review of prospective financial information dates to the initial development of the standard that created the examination and compilation of prospective financial information. Based on the nature of prospective financial information, the examination procedures consisted primarily of analytical procedures and inquiries. Therefore, if the results of analytical procedures and inquiries provided *reasonable assurance*, would it be possible to reduce the work effort to conclude that the practitioner had obtained *limited assurance*? The Board concluded that the evidence provided *reasonable assurance* because it was “positive” as opposed to “negative” (i.e., nothing came to my attention). The review was prohibited because the Board concluded that there was no “space” between *reasonable assurance* (examination) and *no assurance* (compilation).
- With respect to internal control and compliance, the Board had difficulty determining meaningful review procedures for an engagement on subject matter on which analytical procedures could not be applied. Basically, at what point would a practitioner conclude that he or she had obtained *limited assurance* but had not yet obtained *reasonable assurance*? The Board further concluded that users would not understand the concept of *limited assurance* on such subject matter.

The ED included a specific request for comment regarding commenters views as to whether the prohibition of a review engagement on (a) prospective financial information; (b) internal control; or (c) compliance with requirements of specified laws, regulations, rules, contracts, or grants should be retained. The comment letter summary did not indicate any explicit support for removing the prohibition on a limited assurance engagement on such subject matters.

The Task Force developed the following list of pros and cons for permitting the performance of a review on prospective financial information; internal control; and compliance with requirements of specified laws, regulations, rules, contracts, or grants.

Subject Matter	Pros	Cons
Prospective financial information	The determination as to whether evidence sufficient to express an opinion (examination engagement) or a conclusion	No explicit support for removing the prohibition was expressed in responses to the ED

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Subject Matter	Pros	Cons
	(review engagement) would be up to practitioner’s judgment	
		ISAE 3400, <i>The Examination of Prospective Financial Information</i> does not provide for a limited assurance engagement.
Internal control	Convergence with international standards (ISAE 3000 “adapt and apply” provision).	No support for removing the prohibition expressed in responses to the ED
	The determination as to whether evidence sufficient to express an opinion or a conclusion would be up to practitioner’s judgment	Potential confusion as to whether traditional review procedures would be sufficient to afford the practitioner a reasonable basis to conclude that limited assurance has been obtained
	Firms perceive a market for reviews on certain aspects related to controls	Potential confusion for users of the practitioner’s report
	Removing prohibition on performing reviews of internal control may provide a pathway for the performance of third-party assessments in accordance with the attestation standards	
Compliance with requirements of specified laws, regulations, rules, contracts, or grants	Convergence with international standards (ISAE 3000 “adapt and apply” provision).	No support for removing prohibition expressed in responses to the ED
	The determination as to whether evidence sufficient to express an opinion or a conclusion would be up to practitioner’s judgment	Potential confusion as to whether “review-type procedures” would be sufficient to afford the practitioner a reasonable basis to conclude that limited assurance has been obtained

If the ASB concludes that the prohibitions should be removed, in full or in part, paragraph .07 of AT-C section 210 would have to be revised and potentially some combination of AT-C sections 305, *Prospective Financial Information* and 315, *Compliance Attestation*.

The Task Force believes that removing all the prohibitions at one time may be too significant a change for the profession and may result in confusion among practitioners and users of the practitioner's report. Certain members of the Task Force propose that the prohibition be removed with respect to:

- A factual description of the process or that internal control is operating as described.
- Prospective financial information

If the ASB is unwilling to remove the prohibition on a review of internal control in full, certain Task Force members believe that clarification on the prohibition on the performance of a review engagement on internal control would be in the public interest. Certain practitioners interpret paragraph .07 of AT-C section 210 as prohibiting a review on "the design or operating effectiveness of internal control" while others interpret the prohibition to include any subject matter that relates to controls, including for example a factual description of the process or the controls are operating as described.

With respect to prospective financial information, acknowledging that ISAE 3400, *The Examination of Prospective Financial Information* does not provide for a limited assurance engagement, certain members of the Task Force believe that it should be permissible to perform a service in which only limited assurance is obtained on prospective financial information. Currently, if a practitioner is engaged to review historical financial statements and prospective financial information is presented with the financial statements, the practitioner would have to disclaim on the prospective financial information or perform an examination. In the latter scenario, the practitioner obtains limited assurance and expresses a conclusion on the historical information while obtaining reasonable assurance and expressing an opinion on the prospective information.

ASB Consideration

The ASB is asked to provide additional feedback to the Task Force regarding whether a practitioner should continue to be prohibited from performing a review on (a) prospective financial information; (b) internal control; or (c) compliance with requirements of specified laws, regulations, rules, contracts, or grants. If the ASB does not believe that the prohibitions should be removed in full, the ASB is asked to consider permitting a review of (a) a factual description of the process or that internal control is operating as described and (b) prospective financial information.

Relationship with Third-Party Assessment Engagements

In January 2021, the AICPA issued non-authoritative Technical Questions and Answers (TQAs) documents⁷ to provide guidance to practitioners performing third-party assessment engagements.

As the Attestation Standards Task Force moves forward (based on feedback provided by the ASB), it will continue to consider whether third-party assessment engagements may potentially be performed as direct review engagements and communicate with the working group that developed

⁷ The TQA is available at <https://www.aicpa.org/content/dam/aicpa/interestareas/frc/downloadabledocuments/tqa-sections/tqa-section-9550-01-02.pdf>

the TQAs as appropriate. It is possible that the objective of a direct review standard may be substantially similar to an objective in a third-party assessment engagement.

Timeline for Issuance of Standard

If the ASB supports moving forward with a direct review standard, the following is a potential timeline for development and issuance of a proposed SSAE that would result in practitioners being able to perform direct review engagements. The proposed timeline assumes that additional public exposure of the proposed revisions to the attestation standards would not be necessary.

- July 2021 - First draft of proposed standard, *Direct Review Engagements* to be presented to the ASB

- October 2021 - Second draft of proposed standard, *Direct Review Engagements* to be presented to the ASB

- January 2022 - Final draft of proposed standard presented to the ASB with a request that the ASB consider voting to issue as a final standard

No Additional Agenda Materials Presented