

Agenda Item 1



Specified Procedures Engagements

Objective of Agenda Item

To review and obtain feedback from the ARSC on issues related to and a revised draft of a proposed standard dealing with engagements to perform specified procedures.

Background

The Specified Procedures Task Force consists of the following members:

Denny Ard (Task Force Chair) – Member of the ARSC
Jeremy Dillard – Member of the ARSC
Marne Doman – PricewaterhouseCoopers LLP
Dan Hevia – Member of the ASB
David Johnson – Member of the AICPA’s Technical Issues Committee
Paul Penler – Ernst & Young LLP
Chad Singletary – Member of the ASB

The Task Force is staffed by Mike Glynn. The Chairs of the ARSC and ASB (Mike Fleming and Mike Santay, respectively) and the Chair of the Direct Engagements Task Force (Cathy Schweigel) have observer rights to the Task Force meetings.

The Task Force was charged by the ARSC and the ASB to develop a standard that would result in a new service in which CPAs would perform procedures and report on the results of those procedures – without being required to request or obtain an assertion from the engaging party or restrict the use of the report. The project is a joint effort of the ARSC and the ASB.

The Task Force was given the following directives in the development of the proposed standard:

- The standard is to be engagement driven
- No assertion is required to be requested or obtained
- The report would present procedures and related findings without expression of an opinion, a conclusion, or any form of assurance on the subject matter
- There would be no requirement to restrict the use of the report

The Task Force presented certain issues with respect to the development of the proposed standard and a first read draft of the proposed standard to the ARSC at the ARSC’s meeting

Specified Procedures
Discussion Memorandum
ARSC Meeting, November 15-17, 2016

in May 2016 and presented a revised draft of the proposed standard to the ARSC at its meeting in August 2016 and requested feedback.

The Task Force presented the issues outlined in this discussion memorandum to the ASB at the ASB's meeting in October 2016. The ASB's feedback on the issues is presented for ARSC consideration.

Issues for Discussion with ARSC

Issue #1 - Responsibility for the sufficiency of the procedures

The ARSC and the ASB had directed that the standard not require the engaging party to accept responsibility for the sufficiency of the procedures performed as the engaging party may not have a basis for making such a determination. Subsequently, the Task Force drafted the proposed standard such that there would be no requirement for any party to accept responsibility for the sufficiency of the procedures.

The Task Force's construct of the proposed standard allowed flexibility in allowing either the engaging party or the practitioner to accept responsibility for the procedures. However, the ASB stated that some party would need to take responsibility for the sufficiency of the procedures. Another thought was that the purpose of the proposal was to create a service in which the practitioner designed and took responsibility for the procedures and that if the engaging party or another party took such responsibility, an agreed-upon procedures engagement would be appropriate.

The draft illustrative reports presented to the ASB included a statement that the practitioner makes no representation regarding the sufficiency of the procedures either for the purpose for which the report has been requested or for any other purpose. Criticism was raised that this statement renders the report meaningless to potential users. The ASB directed that the that statement be deleted and replaced with a statement describing the purpose of the engagement.

The ASB directed that the proposed standard should:

- Make no reference to responsibility for the sufficiency of the procedures but instead be clear that the practitioner determines the procedures, performs the procedures, and reports on the procedures.
- Require that the report identify the purpose of the engagement in a way that does not imply that the practitioner is expressing an opinion or a conclusion on the subject matter.
- Permit the description of the service in the report to include a statement that no party is required to make or provide a written assertion on the subject matter but not permit any reference as to whether the practitioner obtained a written assertion as it is not relevant to include a discussion of an assertion since one is not required in this type of engagement.

Specified Procedures
Discussion Memorandum
ARSC Meeting, November 15-17, 2016

- Not include reporting requirements in order to differentiate from an agreed-upon procedures engagement.

Action Requested of the ARSC

The ARSC is asked to consider the directives given to the Task Force by the ASB and whether it agrees with the ASB directives or to provide alternative guidance.

Issue #2 - Name of the Service

From the onset of the project to develop a standard for a non-assertion based engagement in which the practitioner performs procedures and reports on the results of those procedures, the service has been referred to as *specified procedures*. As the project has progressed, the Task Force no longer believes that the name is an accurate description of the service. In addition, the term *specified audit procedures* is used in AU-C section 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* and the term *specified procedures* is used in paragraph .14 of the AT-C Preface to refer to procedures performed in an agreed-upon procedures engagement. The use of the same or similar term may cause confusion.

ASB Consideration of the Issue

The ASB stated that while the name may change again, the service should be referred to as *selected procedures* in subsequent drafts of the proposed standards.

Action Requested of the ARSC

The ARSC is asked to provide feedback to the Task Force as to the Task Force’s proposal to revise the name of the proposed service.

Issue #3 - Applicability of the Standard – Specified Procedures vs. Agreed-Upon Procedures

The ASB and the ARSC directed the Task Force to provide guidance as to how to differentiate a specified procedures engagement from an agreed-upon procedures engagement. The Task Force revised the introduction paragraph and the related application paragraphs to provide a clear differentiation from agreed-upon procedures engagements and also provide a reference to the agreed-upon procedures literature if the engagement fits the agreed-upon procedures criteria. The following represents the proposed paragraphs (redline shows changes made to the draft presented to the ASB in October 2016):

<p>Introduction</p> <p>X.1 This proposed standard applies to engagements in which a CPA in the practice of public accounting is engaged to issue, or does issue, a practitioner’s specified<u>selected</u> procedures report on<u>subject matter</u>. <u>In a selected procedures engagement, the practitioner determines</u></p>	<p>Introduction (Ref: par. X.1)</p> <p>X.A1 An agreed-upon procedures engagement is one in which a practitioner is engaged to issue, or does issue a practitioner’s report of findings based on specific agreed-upon procedures applied to subject matter for use by specified parties. AT-C section 215, <i>Agreed-Upon</i></p>
---	--

Specified Procedures
Discussion Memorandum
ARSC Meeting, November 15-17, 2016

~~the procedures to be performed, performs such procedures, and issues a report on procedures performed and related findings.~~ In ~~an~~ a ~~selected procedures~~ engagement ~~performed in accordance with this section~~, the practitioner does not perform an examination or a review and does not provide an opinion or conclusion. In addition, a ~~specified-selected~~ procedures engagement is not an agreed-upon procedures engagement. ~~The practitioner's report on specified procedures is in the form of procedures performed and findings.~~ The selected procedures report may be intended for a broad range of users and is not required to be restricted as to use. (Ref: par. X.A1-.X.A4)

Procedures Engagements contains performance and reporting requirements and application guidance for all agreed-upon procedures engagements.

X.A2 The fundamental differences between a ~~specified-procedures~~selected procedures engagement and an agreed-upon procedures engagement are

- An agreed-upon procedures engagement is predicated on the concept that a party other than the practitioner makes an assertion about whether the subject matter is measured or evaluated in accordance with suitable criteria. ~~In A~~ a ~~specified-procedures~~selected procedures engagement does not contemplate the practitioner requesting or obtain, ~~there is no requirement for the practitioner to request or obtain such~~ an assertion from any party.
- ~~An agreed upon procedures engagement requires the specified parties to assume responsibility for the sufficiency of the procedures. In a specified procedures engagement, no party is required to assume responsibility for the sufficiency of the procedures.~~
- An agreed-upon procedures engagement requires the practitioner to request certain written representations from the responsible party. In a ~~specified procedures~~selected procedures engagement, written representations are not required.
- In an agreed-upon procedures engagement, the use of the practitioner's report is required to be restricted to the specified parties. There is no such

Specified Procedures
Discussion Memorandum
ARSC Meeting, November 15-17, 2016

requirement to restrict the use of the practitioner's report in a ~~specified~~ proceduresselected procedures engagement.

X.A3 Nothing in this standard is intended to preclude a practitioner from performing a ~~specified~~ proceduresselected procedures engagement and an agreed-upon procedures engagement on the same subject matter.

X.A4 Individual users of the ~~specified~~ proceduresselected procedures report would make their own determination as to how the report is to be used and relied upon based on the procedures performed and the results obtained.

Action Requested of the ARSC

The ARSC is asked to consider whether the proposed paragraphs provide guidance to differentiate the specified procedures engagement from an agreed-upon procedures engagement.

Issue #4 – Other Information

The ASB and the ARSC questioned whether requirements with respect to other information is necessary in an engagement in which the report provides no opinion or conclusion on the subject matter.

The practitioner's report on specified procedures is expected to be used in a broad range of different situations and expected to be often distributed to a significant number of parties (for example, customers). As a result, it is expected that the practitioner's report could be included with other information developed by the engaging party. For example:

- Companies could develop a summary/analysis of progress towards meeting interim thresholds/goals to the market (e.g. expanding number of locations) and as part of the summary/analysis may include a practitioner's report on specified procedures and related findings regarding the location and timing of the stores opened
- Company could develop materials for prospective employees that include a practitioner's report on specified procedures and related findings with respect to specific divisions/operating units' progress toward the company's minority hiring goals. Such report and other information may be distributed to all employees
- Company develops guidelines for suppliers and include in the document the practitioner's report on specified procedures and findings related to procedures performed on certain (not all) of the information being provided to suppliers

Specified Procedures
Discussion Memorandum
ARSC Meeting, November 15-17, 2016

Therefore, the Task Force has concluded that it is appropriate to provide requirements and guidance when the practitioner's specified procedures report is included in a document that contains other information.

ASB Consideration of the Issue

Certain ASB members felt that requiring the practitioner to consider other information in a service that results in a general use report makes sense. However, other ASB members felt that considering other information was a risk management issue for the practitioner.

The ASB directed that, since there is no criteria for the practitioner to use in determining whether the other information is consistent with the subject matter of the engagement, that the proposed standard should not include requirements with respect to other information.

Action Requested of the ARSC

The ARSC is asked to consider the Task Force's and the ASB's thoughts with respect to the inclusion of requirements and guidance on other information and provide additional feedback and guidance to the Task Force.

Issue #5 – Reporting

The general reporting requirements are included as paragraphs X.23 – X.25 of the draft proposed standard.

The ASB and the ARSC expressed concern that the illustrative reports include a significant amount of language stating what the engagement is not and suggested that clear statements as to what the practitioner did do along with a simple statement that no opinion or conclusion is expressed should be sufficient.

However, after further consideration, the Task Force believes that the language with respect to the limitations of the engagement is appropriate. Limitations language is used in reports on services that provide less than a high level of assurance (such as review engagements (in accordance with the SSARs, the SSAEs, or the audit literature); compilations; and agreed-upon procedures engagements). Additionally, since the practitioner is not expressing an opinion or conclusion and because of the differences with an agreed-upon procedures engagement, the Task Force believes that the report illustrations are appropriate.

ASB Consideration of the Issue

The ASB directed that:

- The practitioner's report should describe the reason that the practitioner was engaged.
- An illustrative report should be presented that shows the minimum required language as well as an illustrative report that shows additional, but not required, disclosures. (Such illustrations have not yet been prepared but will be presented in the January 2017 agenda material presented to both the ARSC and the ASB).

Specified Procedures
Discussion Memorandum
ARSC Meeting, November 15-17, 2016

Action Requested of the ARSC

The ASB is asked to reconsider the illustrative reports and consider whether the illustrations appropriately describe the service provided and are in the public interest.

Issue #6 – Restricted-Use Reporting

The ARSC and the ASB expressed concern that the proposed standard seemed to direct practitioners to restrict the use of the specified procedures report. It was suggested that the requirements and guidance included in the draft regarding restricted use reporting be removed as restricted use reporting may be an element that would direct the practitioner to performing an agreed-upon procedures engagement. The Task Force has deleted the requirements at the ARSC and the ASB's direction.

The Task Force included the following application guidance with respect to restricted use reporting:

X.A55 Nothing in this proposed standard precludes a practitioner from including an alert in any practitioner's specified procedures report. For example, when the terms of the specified procedures engagement require the practitioner to supply the practitioner's specified procedures report only to specified parties, the practitioner may consider it necessary in the circumstances to include a separate paragraph in the practitioner's specified procedures report that restricts the use of the practitioner's specified procedures report.

X.A56 The need for restriction on the use of a report may result from a number of circumstances, including the purpose of the report, the criteria used in preparation of the subject matter, the extent to which procedures performed are known or understood, and the potential for the report to be misunderstood when taken out of the context in which it was intended to be used

However, the Task Force continued discussions on the issues and believes that the requirements and guidance with respect to restricted use reporting should be retained.

Action Requested of the ARSC

The ASB is asked to reconsider its determination to delete the requirements with respect to restricted use reporting and provide guidance to the Task Force.

Issue #7 - Consideration of Subsequent Events and Subsequently Discovered Facts

The ARSC and the ASB questioned why the proposed standard included a requirement for the practitioner to consider subsequent events and subsequently discovered facts and suggested that such a procedure would just be an additional specified procedure that the practitioner may perform and report on.

ASB Consideration of the Issue

The ASB directed that the requirement focus on instances in which, subsequent to the date of the practitioner's specified procedures report, the practitioner becomes aware of facts

Specified Procedures
Discussion Memorandum
ARSC Meeting, November 15-17, 2016

that may have existed at the time of the practitioner's report that might have affected the practitioner's specified procedures report had the practitioner been aware of such facts. The requirement should be a trip-across.

The following is proposed to be included in the proposed standard (redline to show changes made to the draft presented to the ASB in October 2016):

Consideration of Subsequent Events and Subsequently Discovered Facts in a Specified <u>Selected Procedures</u> Engagement	<u>Consideration of Subsequently Discovered Facts in a Selected Procedures Engagement</u> (Ref: par. X.29)
<p>X.28-26 The practitioner is not required to perform any procedures after the date of the practitioner's selected procedures report. However, if, subsequent to the date of the practitioner's selected procedures report, the practitioner becomes aware of facts that may have existed at the time of the practitioner's report that might have affected the practitioner's specified procedures report had the practitioner been aware of such facts, In performing a specified procedureselected procedures engagement, a practitioner should consider information about subsequent events that comes to his or her attention.</p>	<p><u>X.A55 The steps taken by the engaging party to ensure that anyone in receipt of the practitioner's selected procedures report is aware that the practitioner's selected procedures report is not to be used, depend on the circumstances. The engaging party's steps may include notifying anyone who is known to be using, or who is likely to use, the practitioner's selected procedures report that it is not to be used and that a new practitioner's selected procedures will be issued. This may be necessary when the issuance of a new practitioner's selected procedures report is not imminent.</u></p>
<p>X.29 The practitioner has no responsibility to keep informed of events subsequent to the date of his or her report; however, the practitioner may later become aware of conditions that existed at that date, or subsequently, that might have affected the practitioner's report had he or she been aware of them. In such circumstances, the practitioner should discuss the matter with the engaging party and determine whether the practitioner's report should be revised to disclose the matter.</p>	<p><u>X.A56 If the engaging party made the practitioner's selected procedures report available to third parties despite the practitioner's notification not to do so, or if the practitioner believes that the engaging party has failed to take the necessary steps to prevent use of the practitioner's selected procedures report despite the practitioner's prior notification that the practitioner will take action to seek to prevent such use, the practitioner's course of action depends upon the practitioner's legal and ethical rights and obligations. Consequently, the practitioner may consider it appropriate to seek legal advice.</u></p>
<p><u>X.27 If the practitioner's selected report has been made available to third parties, the practitioner should assess whether steps taken by the engaging party are timely and appropriate to ensure that anyone in receipt of the practitioner's</u></p>	<p><u>X.A57 The actions that the practitioner may take to seek to prevent use of the</u></p>

Specified Procedures
Discussion Memorandum
ARSC Meeting, November 15-17, 2016

selected procedures report is aware that the practitioner's selected procedures report should not be used. (Ref: par. X.A55-X.A58)

X.28 If the engaging party does not take the steps necessary to ensure that anyone in receipt of the practitioner's selected procedures report is aware that the practitioner's report should not be used, as provided by paragraph X.29, the practitioner should notify the engaging party that the practitioner will seek to prevent further use of the practitioner's selected procedures report. If, despite such notification, the engaging party does not take the necessary steps, the practitioner should take appropriate action to prevent use of the practitioner's selected procedures report.

practitioner's selected procedures report may depend upon the degree of certainty of the practitioner's knowledge that persons or entities exist who are currently using, or who will use, the practitioner's selected procedures report, and who would attach importance to the information, and the practitioner's ability as a practical matter to communicate with them. In addition to seeking legal advice, the practitioner may consider taking the following steps to the extent applicable:

- Notify the engaging party that the practitioner's selected procedures report is not to be used.
- Notify regulatory agencies having jurisdiction over the entity that the practitioner's selected procedures report is not to be used, including a request that the agency take whatever steps it may deem appropriate to accomplish the necessary disclosure.
- Notify anyone known to the practitioner to be using the practitioner's selected procedures report that the report is not to be used. In some instances, it will not be practicable for the practitioner to give appropriate individual notification to potential users whose identities are unknown to the practitioner; notification to a regulatory agency having jurisdiction over the entity will usually be the only practical means for the practitioner to provide appropriate disclosure, together with a request that the agency take whatever steps it may deem appropriate to accomplish the necessary disclosure.

Specified Procedures
Discussion Memorandum
ARSC Meeting, November 15-17, 2016

X.A58 Depending on the circumstances, if the practitioner is able to determine that the practitioner's selected procedures report needs revision, the practitioner's notification to anyone in receipt of the practitioner's selected procedures report may, if permitted by law, regulation, and relevant ethical requirements include a description of the nature of the matter and of its effect on the practitioner's selected procedures report, avoiding comments concerning the conduct or motives of any person.

Action Requested of the ARSC

The ARSC is asked to consider the preceding proposed requirements and guidance with respect to subsequently discovered facts and provide feedback to the Task Force.

Issue #8 – Common Concepts

The Task Force presented a proposed common concepts chapter to the ASB at the ASB's meeting in October 2017. The proposed chapter would provide common concepts for the proposed specified procedures services as well as direct review and direct examination engagements. The ARSC is not considering the draft of the proposed direct review and examination engagements.

ASB Consideration of the Issue

ASB directed the Task Force that one common concepts chapter should be developed that addresses all attestation engagements. The ASB suggested that the Task Force consider the corresponding international standards in developing such a common concepts chapter.

Action Requested of the ARSC

Since the common concepts chapter will be significantly revised, the ARSC is not asked to provide comprehensive comments. However, the Task Force requests that the ARSC provide any overall thoughts that it might have with respect to the proposal to draft a chapter that would provide common concepts for all attestation engagements (assertion-based and non-assertion-based).

Next Steps

The following represents the Task Force's timetable for future presentations to the ARSC and ultimate issuance of the proposed standard:

- January 2017– Revised draft standard to be presented to the ARSC with a request that the ASB consider voting to expose the proposed standard for public comment.

Specified Procedures
Discussion Memorandum
ARSC Meeting, November 15-17, 2016

- May 2017– Revised draft standard to be presented to the ARSC with a request that the ARSC consider voting to expose the proposed standard for public comment.
- November 2017 – Consideration of comment letters on exposure draft.
- January 2018 – Final draft presented to the ARSC with a request that the ARSC consider voting to issue as a final standard.

Agenda Items Presented:

- Agenda item 1A Draft proposed standard, *Specified Procedures* – clean (included revisions made subsequent to the October 2016 ASB meeting)
- Agenda item 1B Draft proposed standard, *Specified Procedures* – redline to show changes made to the draft presented to the ASB at its meeting in October 2016
- Agenda item 1C Draft proposed standard, *Specified Procedures* – redline to show changes made to the draft presented to the ARSC at its meeting in August 2016 (does not reflect the changes made subsequent to the October 2016 ASB meeting)
- Agenda item 1D Draft proposed standard, *Concepts Common to All Direct Engagements* (will be significantly revised)

Mr. Ard will refer to agenda item 1B as he walks the ARSC through the proposed standard.