



Agenda Item 1

Consideration of Proposed Revisions to AT-C sections 105 and 210

Objective: To discuss issues with respect to the Auditing Standards Board's project to revise AT-C sections 105, *Concepts Common to All Attestation Engagements*; 205, *Examination Engagements*, and 210, *Review Engagements*, to enable practitioners to report on subject matter without having to obtain a written assertion. ARSC's considerations are focused on sections 105 and 210.

Background

In April 2016, the Auditing Standards Board (ASB) issued Statement on Standards for Attestation Engagements (SSAE) No. 18, *Attestation Standards: Clarification and Recodification*. SSAE No. 18 was the culmination of the ASB's project to clarify the attestation literature. SSAE No. 18 was effective for all reports dated on or after May 1, 2017.

Prior to the ASB's approval of the clarified attestation standards (extant AT-C sections), the ASB agreed that it would undertake a project to create a set of attestation standards that would enable practitioners to report on examination and review attestation engagements without having to obtain a written assertion from the responsible party. (Under the extant AT-C sections, 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.) At the time, a large number of ASB members believed that the requirement to withdraw from the engagement was unfair to management of smaller, less sophisticated entities who might not have the expertise to perform the measurement or evaluation of the subject matter that would provide a basis for management's assertion. As a result, it was agreed that a working group would be formed to create examination and review attestation standards that would not require the practitioner to obtain an assertion.

International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, issued in July 2013, provides for such engagements and identifies them as "direct engagements." ISAE 3000 does not contain requirements and application guidance tailored to these engagements but instead instructs the practitioner to adapt and supplement the requirements and application guidance in ISAE 3000 as necessary in the engagement circumstances.

Some members of the ASB believe that it is important to obtain an assertion from the responsible party in order to avoid independence issues. AICPA staff asked the AICPA Professional Ethics Executive Committee (PEEC) whether a practitioner's independence would be impaired if the responsible party did not measure or evaluate the subject matter. PEEC's response was that

independence would not be impaired as long as the responsible party agrees to take responsibility for the subject matter.

At the May 2017 ASB meeting, the Direct Engagements Working Group presented drafts of proposed AT-C sections for direct examinations and direct reviews. The ASB concluded that the proposed AT-C sections were so similar to the extant AT-C sections that it was unnecessary to establish separate AT-C sections for direct examinations and reviews, and to do so would only be confusing to practitioners. For that reason, the ASB directed the Working Group to incorporate the direct engagement provisions into the relevant extant AT-C sections. At its September in person meeting, the Working Group decided to accomplish this objective by retaining the requirement for the practitioner to request a written assertion but enabling the practitioner to report when the practitioner did not receive such an assertion.

Consequently, the Working Group decided that the proposed amended AT-Cs section should

- not include the term *direct engagement*
- focus on obtaining sufficient appropriate evidence regardless of what the responsible party did or did not do relative to measuring or evaluating the subject matter
- more closely harmonize with ISAE 3000 regarding the issue of measuring or evaluating the subject matter
- include a revision of AT-C 210, *Review Engagements*, that more closely harmonizes with the limited assurance provisions of ISAE 3000, given that certain subject matter may not be conducive to inquiries and analytical procedures, on which extant AT-C 210 is based.

Revised drafts of proposed revised AT-C sections 105, *Concepts Common to All Attestation Engagements*; 205, *Examination Engagements*; and 210, *Review Engagements*, were presented to the ASB at its meeting in October 2017.

As AT-C sections 105 and 210 address limited assurance attestation (review) engagements, the ARSC's input as to the proposed revisions is sought and valued. However, the project is solely an ASB project and the ARSC will not be asked to vote to either expose for public comment or issue the proposed standard as final.

Issues for Discussion

1. Review/Limited Assurance Engagements

As discussed in the preceding, the Working Group believes that the proposed AT-C sections should emphasize the sufficiency and appropriateness of the evidence obtained by the practitioner. Due to the variety of subject matters that could be addressed in a review engagement, the Working Group believes that inquiries and analytical procedures may not enable a practitioner to obtain limited assurance in certain engagements. As a result, the Working Group considered how ISAE

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3000 addresses evidence in a limited assurance engagement. One obvious difference between extant AT-C section 210 and ISAE 3000 is that ISAE 3000 is based on the term *limited assurance* rather than the term *review*. In looking at ISAE 3000, the majority of the Working Group members believe that AT-C section 210 should be rewritten to more closely harmonize with ISAE 3000 regarding evidence. In doing so, several definitions have been modified, and the term *review* has been replaced with the term *limited assurance*.

To clarify that the terms *review* and *limited assurance engagement* are interchangeable, the Working Group proposes that the following application paragraph be linked to the definition of *limited assurance engagement* in AT-C section 105:

.A9 The practitioner obtains the same level of assurance in a limited assurance engagement performed in accordance with the attestation standards as the practitioner does in a review of financial statements. As such, a limited assurance engagement performed in accordance with Statements on Standards for Attestation Engagements may be referred to as a *review*.

At its meeting in October 2017, the ASB agreed with the Working Group that AT-C section 210 should be revised to make clear that review evidence may be obtained from procedures in addition to, or other than, inquiries and analytical procedures in a limited assurance engagement performed in accordance with AT-C section 210. Further, the ASB directed that the engagement be referred to as a *limited assurance engagement*.

ARSC Consideration

The ARSC is asked to consider whether the proposed revisions to AT-C section 210 are appropriate and clarify that it may be necessary to perform procedures in addition to, or other than, inquiries and analytical procedures in order to obtain sufficient and appropriate evidence in a limited assurance attestation engagement.

2. Reporting on Review/Limited Assurance Engagements

At its meeting in October 2017, the ASB directed that, because the review/limited assurance engagement may consist of procedures other than analytical procedures and inquiries, that, consistent with ISAE 3000, the practitioner's report include a description of the specific procedures performed. As the disclosure of specific procedures is the primary difference between an ISAE 3000 report and a report prepared in accordance with AT-C section 210, the proposal includes a closer harmonization with the ISAE 3000 reporting requirements as a whole.

The table in the Exhibit to this discussion memorandum compares a report prepared in accordance with extant AT-C section 210 and a report prepared in accordance with ISAE 3000 (which the proposed revised AT-C section 210 harmonizes with). The report is on an entity's greenhouse gas emissions statement.

ARSC Consideration

The ARSC is asked to consider whether the ISAE 3000 reporting requirements result in a more transparent and useful report than the extant AR-C section 210 reporting requirements.

3. Inclusion of Common Items in AT-C section 105

Proposed revised AT-C section 105, *Concepts Common to All Attestation Engagements* purports to include those concepts that are common to all attestation engagements in a manner similar to how AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services* serves as a foundation for the other AR-C sections.

At its meeting in October 2017, the ASB directed that the following paragraph be stricken from AT-C section 210 and instead that the relevant requirements and guidance (amended as necessary for a limited assurance engagement) should be incorporated in AT-C section 210:

.27 When the practitioner expects to use the work of a practitioner's specialist or internal auditors, the practitioner should apply the requirements in section 205, *Examination Engagements*, and the related application guidance, as appropriate, for a review engagement.¹

¹ Paragraphs .36-.44 of section 205, *Examination Engagements*.

Subsequent to the ASB meeting, the Working Group considered whether the applicable requirements and guidance should be included in both AT-C sections 205 and 210 (as well as AT-C section 215, *Agreed-Upon Procedures Engagements*) or if the requirements and guidance should be moved to AT-C section 105.

Note that requirements and guidance with respect to using the work of an other practitioner in an attestation engagement are included in AT-C section 105.

ARSC Consideration

The ARSC is asked to consider whether the requirements and guidance with respect to the use of a practitioner's specialist or internal auditors should be moved from AT-C sections 205 and 210 (and 215) and moved to AT-C section 105 or if the requirements and guidance should remain in the engagement specific sections. If the ARSC believes that the requirements and guidance should move to AT-C section 105, consider whether there are other requirements and guidance that should be moved to AT-C section 105.

Agenda Items Presented:

None

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Direct Engagements Working Group:

Cathy Schweigel, Chair
James Dalkin
Marne Doman
Andy Mintzer
Dan Montgomery
Rick Reisig

Judith Sherinsky and Mike Glynn staff the Working Group and Mike Santay (Chair of the ASB); Mike Fleming (Chair of ARSC); and Denny Ard (Chair of the Selected Procedures Task Force) are observers to the Working Group.

Exhibit

Comparison of Review/Limited Assurance Reports Prepared in Accordance with AT-C section 210 and ISAE 3000

AT-C section 210 (extant) Illustrative Report	ISAE 3000 Illustrative Report
Independent Accountant's Review Report	Independent Practitioner's Limited Assurance Report on Statement of Greenhouse Gas Emissions
<i>[Appropriate Addressee]</i>	<i>[Appropriate Addressee]</i>
<p>We have reviewed the accompanying Statement of Greenhouse Gas (GHG) Emissions (GHG Statement) for the year ended December 31, 20X1. XYZ Company's management is responsible for presenting the GHG Statement in accordance with the criteria set forth in Note 1 (the Criteria). Our responsibility is to express a conclusion on the GHG Statement based on our review.</p>	<p>We have undertaken a limited assurance engagement of the accompanying Greenhouse Gas (GHG) Emissions Statement (GHG Statement) of XYZ Company for the year ended December 31, 20X1.</p> <p><i>XYZ Company's Responsibility for the GHG Statement</i></p> <p>XYZ Company is responsible for the preparation of the GHG Statement in accordance with with the criteria set forth in Note 1 (the Criteria). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of a GHG Statement that is free from material misstatement, whether due to fraud or error.</p>
	<p>As discussed in Note 1 to the GHG Statement, GHG quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.</p>
	<i>Our Independence and Quality Control</i>
	<p>We have complied with the <i>Code of Ethics for Professional Accountants</i> issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity,</p>

Commented [MG1]: This paragraph is consistent with the paragraph immediately preceding the conclusion in the AT-C section 210 report.

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	professional competence and due care, confidentiality and professional behavior.
	In accordance with International Standard on Quality Control 1, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.
	<i>Our Responsibility</i>
Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the review to obtain limited assurance about whether any material modifications should be made to the GHG Statement in order for it to be presented in accordance with the criteria. A review is substantially less in scope than an examination, the objective of which is to obtain reasonable assurance about whether the GHG Statement is in accordance with the Criteria, in all material respects, in order to express an opinion. Accordingly, we do not express such an opinion. We believe that our review provides a reasonable basis for our conclusion.	<p>Our responsibility is to express a limited assurance conclusion on the GHG Statement based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements 3410, <i>Assurance Engagements on Greenhouse Gas Statements</i> ("ISAE 3410"), issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the GHG Statement is free from material misstatement.</p> <p>A limited assurance engagement undertaken in accordance with ISAE 3410 involves assessing the suitability in the circumstances of XYZ Company's use of the Criteria as the basis for the preparation of the GHG Statement, assessing the risks of material misstatement of the GHG Statement whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the GHG Statement. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.</p> <p>The procedures we performed were based on our professional judgment and included inquiries, observation of processes performed, inspection of documents, analytical procedures,</p>

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evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we:

- Through inquiries, obtained an understanding of XYZ Company's control environment and information systems relevant to emissions quantification and reporting, but did not evaluate the design of particular control activities, obtain evidence about their implementation or test their operating effectiveness.
- Evaluated whether XYZ Company's methods for developing estimates are appropriate and had been consistently applied. However, our procedures did not include testing the data on which the estimates are based or separately developing our own estimates against which to evaluate XYZ Company's estimates.
- Undertook site visits to assess the completeness of the emissions sources, data collection methods, source data and relevant assumptions applicable to the sites. The sites selected for testing were chosen taking into consideration their emissions in relation to total emissions, emissions sources, and sites selected in prior periods. Our procedures did not include testing information systems to collect and aggregate facility data, or the controls at these sites

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited

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	assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether ABC's GHG statement has been prepared, in all material respects, in accordance with the <i>[applicable criteria]</i> applied as explained in Note 1 to the GHG statement.
As described in Note 1, environmental and energy use data are subject to measurement uncertainties resulting from limitations inherent in the nature and methods used for determining such data. The selection of different but acceptable measurement techniques can result in materially different measurements. The precision of different measurement techniques may also vary.	
	<i>Limited Assurance Conclusion</i>
Based on our review, we are not aware of any material modifications that should be made to the Statement of Greenhouse Gas Emissions for the year ended December 31, 20X1 of XYZ Company in order for it be presented in accordance with the criteria set forth in Note 1.	Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that XYZ Company's GHG Statement for the year ended December 31, 20X1 is not prepared, in all material respects, in accordance with the criteria applied as explained in Note 1 to the GHG Statement.
<i>[Practitioner's signature]</i>	<i>[Practitioner's signature]</i>
<i>[Practitioner's city and state]</i>	<i>[Date of practitioner's report]</i>
<i>[Date of practitioner's report]</i>	<i>[Practitioner's city and state]</i>