



Agenda Item 1

Selected Procedures

Objective of Agenda Item

To discuss the comments received on the public exposure of the proposed Statement on Standards for Attestation Engagements, *Selected Procedures*; to provide the ARSC with the Selected Procedures Task Force's plan with respect to the proposed revisions to the attestation standards; and to obtain feedback and direction from the ARSC.

Background

The Selected Procedures Task Force was charged by the ARSC and the ASB to assist in the development of a standard that would enable a CPA to perform procedures and report on the results of those procedures – without being required to request or obtain an assertion from the responsible party or restrict the use of the report. The project has been a joint effort of the ARSC and the ASB.

The Selected 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 ARSC
Michael Manspeaker – 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 Working Group (Cathy Schweigel) have observer rights to the Task Force meetings.

The Task Force presented certain issues and drafts of the proposed standard to the ARSC at its meetings in May, August, and November 2016 and January and May 2017. At its meeting in August 2017, the ARSC voted to ballot to expose the proposed standard for public comment. The ASB deferred to the ARSC with respect to exposing the proposed standard for public comment.

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The exposure draft was issued on September 1, 2017 and comments were requested by December 1, 2017. The explanatory material that accompanied the exposure draft included 4 main issues on which the ARSC requested specific feedback. Those issues were:

1. Nature of the proposed service and the development of the procedures to be performed
2. Use of the report
3. Requesting or obtaining an assertion from the responsible party
4. The proposed standard versus an agreed-upon procedures engagement

Each of the 4 broad issues included specific requests for comment.

27 comment letters were received from a variety of interested parties including large international firms, smaller firms, state societies, and regulators.

The Task Force met in Chicago on December 11, 2017 to review the comments received and to discuss potential revisions to the proposed standard.

Overall Observations

The majority of the comment letters received expressed support for the proposed expansion of the practitioner's ability to perform procedures and report in a procedures and findings format beyond that currently provided by AT-C section 215, *Agreed-Upon Procedures Engagements*. However, five comment letters were received that expressed serious concerns with respect to the project. Those five commenters were:

- National Association of State Boards of Accountancy (NASBA)
- Don M. Pallais, CPA
- Piercy Bowler Taylor & Kern
- U.S. Government Accountability Office (GAO)
- Beth A. Schneider, CPA

Many respondents expressed concern regarding the proposal that a practitioner could issue a report without a restriction as to its use in a situation in which no party takes responsibility for the subject matter and sufficiency of the procedures for any purpose. Those respondents concluded that such a service would be more akin to a consulting service as opposed to an engagement performed in accordance with the attestation standards.

Most of the larger firms, except Ernst & Young LLP and Deloitte & Touche LLP, expressed that the flexibility proposed by the draft standard could and should be achieved

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by revising AT-C section 215 as opposed to creating a new AT-C section that would result in two separate services – agreed-upon procedures and selected procedures. The large majority of smaller firm practitioners supported the issuance of a standard that would result in a new AT-C section. Additionally, some respondents cautioned that making changes to AT-C section 215 could result in unintended consequences with respect to contracts and regulations that require agreed-upon procedures reports.

Several commenters expressed concerns that are risk management in nature. The Task Force continues to believe that if the proposed report is properly drafted, those concerns are mitigated. Regardless, the Task Force remains committed to developing a standard that is in the public interest. While the proposed services are performed today, and may continue to be performed, as consulting engagements, the Task Force believes that developing an attestation standard for such services would result in higher quality engagements by requiring, among other things, that the practitioner be independent and that the engagement be subject to peer review.

Issues For Discussion With the ARSC

Issue#1 - Proposed Standard Versus an Agreed-Upon Procedures Engagement

The following represents the four primary differences between the proposed standard and an engagement currently performed in accordance with AT-C section 215:

- In an AUP engagement, the specified parties are required to agree to the sufficiency of the procedures for their purposes. The proposed standard would not require any party to take responsibility for the sufficiency of the procedures.
- In an AUP, a party is identified as being responsible for the subject matter of the engagement (defined as *responsible party*). There is no requirement to identify a responsible party in the proposed standard.
- In an AUP, the practitioner is required to request from the responsible party a written assertion about the measurement or evaluation of the subject matter against suitable criteria and disclose in the accountant's report when a written assertion is not obtained). The proposed standard does not include a requirement to either request an assertion or disclose in the accountant's report when the practitioner does not obtain a written assertion.
- In an AUP, the practitioner's report is required to include an alert that restricts the use of the report to the parties that agreed to the sufficiency of the procedures for their purposes. The proposed standard does not include a requirement for the practitioner to restrict the use of the report.

The Task Force noted that the following commenters clearly indicated that they preferred that the proposed standard, if issued as final, should be codified as a stand-alone AT-C section:

- Commonwealth of Virginia Auditor of Public Accounts

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- Florida Institute of CPAs' Accounting Principles and Auditing Standards Committee
- AICPA PCPS Technical Issues Committee
- New Jersey Society of CPAs' Accounting and Auditing Interest Group
- Michigan Office of Auditor General
- National State Auditors Association
- Hunter College Graduate Program – Advanced Auditing class
- Ernst & Young LLP
- Professional Standards Committee of the Texas Society of CPAs
- Deloitte & Touche LLP
- Accounting and Auditing Procedures Committee of the Pennsylvania Institute of CPAs

The following commenters clearly indicated that the proposed standard should, if issued as a final standard, be incorporated into AT-C section 215:

- NASBA
- RSM US LLP
- State of Michigan Office of Commission Audits
- Moss Adams LLP
- KPMG LLP
- PricewaterhouseCoopers LLP
- Grant Thornton LLP
- GAO
- Audit and Assurance Services Committee of the Illinois CPA Society

Given that the ASB's Direct Engagements Working Group is currently working on

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proposed revisions to AT-C sections 105, 205, 210, and 215 and that the primary differences from the proposed standard and AT-C section 215 are not numerous, the Task Force proposes that AT-C section 215 be revised to accommodate the flexibility proposed by the draft standard. The proposed revised AT-C section 215 would retain the title *Agreed-Upon Procedures Engagements* – thus the proposed “flexible” engagements would be referred to as “agreed-upon procedures engagements.”

In discussing how AT-C section 215 could be revised to accommodate both current agreed-upon procedures engagements and the proposed “flexible” engagements, the Task Force considered that there were two clear types of engagements:

- (1) engagements conducted as a result of a contractual or regulatory requirement;
- (2) engagements conducted as a result of a management request for the purpose of providing information, where management is taking the initiative for communicating information. [Note: A third category, which has considerations related to both of these types of engagements, exists when management is responding to a third party/external request for information. This situation will be discussed later in this discussion memorandum.]

The Task Force is proposing that certain requirements in extant AT-C section 215 would be lessened (such as requiring specified parties agree to the sufficiency of the procedures for their purposes and restrict the use of the practitioner’s report to those specified parties).

Action Requested of ARSC

The ARSC is asked to consider whether it agrees with the Task Force that AT-C section 215 be revised to accommodate the flexibility proposed by the exposure draft of the proposed SSAE, *Selected Procedures*, rather than creating a new AT-C section for selected procedures engagements

Further, the ARSC is asked to consider whether the subject matter specific AT-C sections that currently permit the performance of an agreed-upon procedures engagement should permit the proposed “flexible” agreed-upon procedures engagements.

Issue #2 - Responsibility for the Sufficiency of the Procedures

As previously stated, many respondents expressed concern that the proposed standard would not require any party to take responsibility for the sufficiency of the procedures for any purpose. Some of those expressed concerns are as follows:

- NASBA - We disagree with the proposal that no party would be required to take responsibility for the sufficiency of the procedures. There is a general public perception that, when a certified public accountant has signed their name to a document, that a practitioner has used due professional care in determining the sufficiency of the procedures, unless there is division of responsibility clearly identified as currently done in AT-C section 215 engagements today.

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We also believe that the proposed standard could create threats to compliance with the AICPA *Code of Professional Conduct* “Independence Rule” [1.200.001] as it does not require any party to take responsibility for the sufficiency of the procedures. We believe that the practitioner needs to be independent with respect to the responsible party(ies), as defined in the SSAEs. The threat that a member would take on the role of attest client management, or otherwise assume management responsibilities for an attest client, could exist if no party takes responsibility for the selected procedures and determining that those procedures meet the intended purpose of the engagement.

- Piercy Bowler Taylor & Kern - In the event selected procedures engagements, as described in the Proposal, were to become permissible, (of which we are not in favor), we firmly believe there always should be a party who is clearly responsible for determining the sufficiency of the procedures for the intended purposes. We believe having the engaging party merely acknowledge its awareness of the selected procedures (as in paragraph 42), without accepting responsibility, to be meaningless and, therefore, of no value. Further, we believe that articulating the absence of such responsibility, as illustrated in para. 53e of the proposed standard, would be objectionable to both the engaging party and the users of the CPA’s report, and despite the inclusion of such disclaimer language, users would likely default to the view that the reporting practitioner, in fact, must be responsible.
- KPMG LLP - Understanding the purpose of the engagement is necessary to design responsive procedures and report findings, or lack thereof. However, we believe that the engaging party should be required to determine the intended purpose (that is, the use for which the practitioner’s report is intended), and therefore should also be required to either take responsibility for the sufficiency of or agree to the procedures performed for the intended purpose. Inherently, while obtaining an understanding of the engaging entity’s intended purpose, and then designing and executing the procedures with due professional care, the practitioner has some level of responsibility for the sufficiency of the procedures for which they were engaged. Like AT-C section 215.19, the Proposed Standard states that the practitioner should not agree to perform procedures that are open to varying interpretations. The practitioner should only agree to perform procedures that are responsive to the intended purpose.

The practitioner is not the party that determines the intended purpose, yet may be perceived by users as implicitly concluding, to a certain degree, that the procedures are sufficient for the intended purpose. Consequently, we believe the Committee should require the party(ies) that determines the intended purpose to also either take responsibility for the sufficiency of or agree to the procedures performed for the intended purpose. As previously stated, we believe the concept of acknowledging awareness of the procedures performed in paragraph 42 of the Proposed Standard is too ambiguous and should be eliminated.

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- Professional Standards Committee of the Texas Society of CPAs - No, we do not agree with the proposal that no party would accept responsibility for the sufficiency of procedures in an agreed-upon procedure engagement. The client is sometimes not knowledgeable enough to determine sufficiency and/or adequacy of engagement procedures. There could be circumstances when the CPA has to determine which procedures are needed to meet the engagement objectives. However, the client is ultimately responsible for the sufficiency of the procedures.

- BDO USA LLP - As to the flexibility this proposed SSAE provides regarding the responsibilities of the parties to the engagement, we believe that such flexibility goes too far by allowing no specified party to have such responsibility for the sufficiency of the procedures for the purposes they were intended. Even with the required inclusion in the practitioner's report that the completed selected procedures may not meet the needs of all users, some general users may nonetheless, by default, believe that the practitioner must have determined the adequacy of the selected procedures if that practitioner were willing to issue the general use report in the first place. We do not believe such possible misunderstandings are in the public interest.

...we recommend that if the proposed standard moves forward the standard include a requirement for the engaging party to take responsibility that the procedures meet the intended purpose of the engagement.

- Audit and Assurance Services Committee of the Illinois CPA Society - No, we disagree with the premise that a disclaimer of responsibility is appropriate. Currently, the practitioner does not take responsibility for the sufficiency of the procedures performed. However, the lack any party's responsibility for the sufficiency of the procedures could lead to:
 - misunderstandings between parties;
 - reduced usefulness of the reports;
 - erosion of public trust; and
 - potential additional professional risk.

- Deloitte & Touche LLP - We believe that as a precondition to accepting the engagement, the engaging party should be required to take responsibility for the sufficiency of the selected procedures and for determining that the selected procedures meet the intended purpose of the engagement.

- Accounting and Auditing Procedures Committee of the Pennsylvania Institute of CPAs - Some on the committee find this proposal to be counterintuitive. If a client is engaging the CPA to design and perform procedures to achieve a stated objective, can the CPA disavow responsibility for the sufficiency of the procedures? Isn't the underlying objective of the selected procedures engagement

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to leverage the CPA's expertise to design procedures sufficient to meet a given objective? On the other hand, if the client has designed the procedures, shouldn't the client be responsible for the sufficiency of the procedures? These committee members believe that the party designing the procedures should take responsibility for their adequacy.

Others on the committee view responsibility as a legal matter, and note that situations could arise wherein it may be acceptable for no party to take responsibility for the sufficiency of the procedures. However, these situations should be limited to restricted use reports in which all users are known, thereby allowing objective evaluation of the criteria. As discussed below, it may be challenging for practitioners to objectively evaluate criteria for a general use report in a setting where no one takes responsibility for the sufficiency of the procedures.

The committee also believes that the concept that no party would be required to take responsibility for the sufficiency of the procedures conflicts with a statement included in the proposed report (page 51, para. 53 f.) that "users are responsible for the sufficiency of the procedures."

- Beth A. Schneider, CPA - I do not agree with the proposal that no party would be required to take responsibility for the sufficiency of the procedures in a selected procedures engagement as I believe it would diminish the credibility of the service. If the engaging party is unable or unwilling to take such responsibility, then the practitioner would need to do so or it would not be in the public interest for a general use report to be issued.

The Task Force noted that the requirement in the proposed standard for the engaging party to provide a written acknowledgment regarding their *awareness* of the actual procedures performed rather than the sufficiency of the procedures for any purpose may be an insufficient requirement. However, the Task Force remains of the mind that the requirement in AT-C section 215 for the specified parties to accept responsibility for the *sufficiency* of the procedures unnecessarily limits the application of a flexible procedures and findings service.

The Task Force therefore proposes that there be a requirement for the engaging party to acknowledge that the procedures are *appropriate* for their intended purpose. This recommendation is similar to a comment made by Ernst & Young LLP, expressed as follows:

We believe that someone other than the practitioner should determine that the selected procedures are appropriate for the intended purpose of the engagement, even if the practitioner or another party developed the selected procedures, and that party should be identified in the practitioner's report. Note that this differs from a party taking responsibility for the sufficiency of the procedures. We believe this is particularly important when a general-use report is expected to be issued, since users would

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reasonably expect a party other than the practitioner to determine that the procedures are appropriate for the intended purpose and they may not be in a position to make such an assessment. In most cases, we would expect the engaging party to determine that the selected procedures are appropriate for the intended purpose of the engagement. Further, we believe this requirement would be consistent with the other attestation standards that require a party to take responsibility for the procedures performed.

The Task Force further recommends that, while the practitioner could assist in the development of the procedures and that the procedures may evolve over the course of the engagement, the practitioner would not accept responsibility for the appropriateness of the procedures.

In practice, the Task Force believes that the practitioner could attach a copy of the procedures performed (perhaps in a draft report) to the requested representation letter. The engaging party would then acknowledge that the procedures performed are appropriate for their purposes in the representation letter. This protocol would eliminate the practice issue that currently exists with the AT-C section 215 requirement that the agreed-upon terms of the engagement include agreement on the procedures by enumerating (or referring to) the procedures. In circumstances in which the agreed-upon procedures evolve or are modified over the course of the engagement, AT-C section 215 requires that the practitioner amend the engagement letter or other suitable form of written agreement, as applicable, to reflect the modified procedures.

The Task Force proposes that, unless the agreed-upon procedures report is required by contract or regulation, the intended users of the practitioner's report would not be required to acknowledge that the procedures are appropriate for their purposes. Instead, the report would include some language that serves as a warning that the procedures may not be appropriate for all purposes. In practice, the engaging party would communicate with known intended users as part of their process of determining whether the procedures are appropriate. The Task Force believes that this approach is appropriate given that the practitioner cannot control distribution of the report once it is issued.

The Task Force proposes that the reporting requirements include a requirement that the report specify the parties that have accepted responsibility for the appropriateness of the procedures.

Action Requested of ARSC

The ARSC is asked to consider whether it agrees with the Task Force that AT-C section 215 be revised to eliminate the requirement for the specified parties to accept responsibility for the *sufficiency* of the procedures and instead replace it with a requirement that only the engaging party acknowledge that the procedures are *appropriate* for their intended purpose, except when the agreed-upon procedures report is required by contract or regulation in which case the specified parties would also be required to conclude that the procedures are *appropriate* for their intended purpose.

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Issue #3 - Responsibility for the Subject Matter of the Engagement

AT-C section 105 states that the party responsible for the subject matter is the *responsible party*. The proposed standard states that there are situations where the engaging party may not be able to take responsibility for the subject matter and intentionally does not include the concept of a *responsible party* beyond the engaging party.

The Task Force acknowledges that there will always be a *responsible party* but that such party may not be a party to the engagement. The Task Force envisions three possible scenarios, as follows:

- The *engaging party* is the *responsible party*. In such instances, there should be a requirement for the practitioner to obtain the engaging party's acknowledgement that it is responsible for the subject matter of the engagement and to state in the report that the engaging party is responsible for the subject matter.
- The *responsible party* is not the *engaging party* but is a specified party. In such instances, there should be a requirement for the engaging party to identify the responsible party and to state in the report that the responsible party is responsible for the subject matter.
- The *responsible party* is not a party to the engagement. In such instances, there should be a requirement for the engaging party to identify the responsible party but no reference to the responsible party is required to be stated in the report.

The Task Force proposes that the definition of *responsible party* in AT-C section 105 be revised (or include an application paragraph) to state that there may be engagements in which the responsible party is not a party to the engagement.

Further, the Task Force proposes that the practitioner's report clearly identify the party responsible for the subject matter of the engagement, except when such party is not a party to the engagement.

Action Requested of ARSC

The ARSC is asked to consider whether it agrees with the Task Force that the definition of *responsible party* in AT-C section 105 be revised (or include an application paragraph) to state that there may be engagements in which the responsible party is not a party to the engagement.

Further, the ARSC is asked to consider whether it agrees that the party responsible for the subject matter of the engagement be identified in all engagements in which such party is a party to the engagement and that the report clearly identify such party (unless such party is not a party to the engagement).

Issue #4 - Requesting or Obtaining a Written Assertion From the Responsible Party

The proposed standard does not include a requirement to either request a written assertion

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or disclose in the accountant's report when the practitioner does not obtain such an assertion. This is because the appropriate party may not have the ability or may not otherwise be willing to perform its own measurement or evaluation of the subject matter.

Other than the following reservations, the Task Force did not note any objections in the comment letters received on the exposure draft to the proposal and will continue with the development of a standard that does not require the practitioner to either request a written assertion or disclose in the accountant's report when the practitioner does not obtain such an assertion.

- Ernst & Young LLP - We recommend that, to protect users of reports about "sensitive" subject matters (i.e., subjects addressed in the AT-C 300 series, internal controls, cybersecurity risk management programs and information related to the sale of securities^{fn2}), the final standard should allow the practitioner to issue the report for general use only if the practitioner obtains a representation from the party responsible for the subject matter that the subject matter is in accordance with the criteria and the party has a reasonable basis to make that statement. We believe this representation is necessary because users of the selected procedures report would presume that a party, other than the practitioner, has assessed whether the subject matter is in accordance with the criteria (e.g., compliance with laws or regulations). We also believe that, if the party responsible for the subject matter refuses to provide this representation, the practitioner should be required to restrict the use of the report and disclose in the report the responsible party's refusal to provide the representation.

For all other subject matters, we believe the engaging party should provide a representation that it has disclosed to the practitioner any reservations about whether the subject matter is in accordance with the criteria, in all material respects. If the engaging party refuses to provide this representation, we believe the practitioner should consider restricting the use of the report and/or disclosing in the report the engaging party's refusal to provide the representation.

Fn2 Examples may include an engagement to perform selected procedures similar to Statement of Position 17-1 Performing Agreed-Upon Procedures Related to Rated Exchange Act Asset-Backed Securities Third-Party Due Diligence Services as Defined by SEC Release No. 34-72936 securities, or an engagement to perform selected procedures in connection with the sale of equity securities.

- Moss Adams LLP - We agree there are certain circumstances, such as those outlined in the proposed standard, in which the party responsible for the subject matter would not be required to provide a written assertion. However, we believe that obtaining a written representation from the responsible party should be presumptively mandatory. We recommend amending the language in paragraph 47 of the proposed standard as follows:

If the engaging party is not responsible for the subject matter of the engagement, the practitioner should ~~also consider~~ requesting the

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representations set forth in paragraph 46 from the party that is responsible for the subject matter of the engagement.

In those circumstances where it is not feasible to obtain a written representation from the responsible party, we believe a statement to that effect should be included in the report. We recommend amending paragraph 53 of the proposed standard to include “an identification of the party who takes responsibility for the subject matter or a statement that neither the practitioner nor the engaging party takes such responsibility”.

- Professional Standards Committee of the Texas Society of CPAs - This is a substantial departure from previous guidance that requires specific wording about engagement responsibilities. It is always a good idea to obtain a written assertion from the client for a selected procedures engagement, even if not required. The concern with not requiring a written assertion is that it provides an opening for perceived responsibility on the part of the CPA. It would be helpful to see examples of selected procedure engagement letters that do not contain assertions on the part of management.
- BDO USA LLP - ...not requiring a written assertion by a specified party or disclosure that such an assertion was not obtained, further adds to the possible misunderstanding that the practitioner is taking responsibility for the sufficiency of the selected procedures for the purposes any user might require.

Issue #5 - Use of the Practitioner’s Report

A practitioner’s agreed-upon procedures report is required to include an alert that restricts its use to those specified parties who have agreed to the procedures to be performed by the practitioner and who are responsible for the sufficiency of the procedures for their purposes.

Several commenters expressed concern with permitting general-use reports when the procedures are specified by a contract or regulation. Moss Adams LLP provided the following comment:

We are troubled that the decision to perform an agreed-upon procedures engagement versus a selected procedures engagement would be marketplace driven, without restriction or guidance on when one type of engagement would be expected rather than another. Situations in which the practitioner should be precluded from performing a selected procedures engagement include 1) the procedures to be performed are contractually defined between two or more parties, and 2) the procedures are identified by, and with the explicit purpose to satisfy, a regulatory or oversight body.

To provide increased flexibility, the Task Force is proposing that AT-C section 215 be modified so as not to require that the report include an alert restricting the use of the report to specified parties unless:

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- a. the agreed-upon procedures report is required by contract or regulation, or
- b. the practitioner determines that the criteria used to evaluate the subject matter are
 - (a) appropriate only for a limited number of parties who either participated in their establishment or can be presumed to have an adequate understanding of the criteria or
 - (b) available only to the specified parties.

The Task Force continues to believe that permitting general-use procedures and findings reports would have the benefit of providing practitioners with flexibility in being responsive to client requests and the needs of users of the practitioner's report. The proposed standard does not preclude the practitioner from restricting the use of the selected procedures report if the engaging party asks that the report be restricted or if the practitioner deems a restriction on the use of the selected procedures report to be appropriate. Practitioners may decide to restrict the use of the selected procedures report to a specific class of users. Also, it is proposed that the report would be required to include language that serves as a warning that the procedures may not be appropriate for all purposes.

Action Requested of ARSC

The ARSC is asked to consider whether it agrees with the Task Force that AT-C section 215 be revised to permit the issuance of general use reports unless the report is required by contract or regulation or the criteria used to evaluate the subject matter are (a) appropriate only for a limited number of parties who either participated in their establishment or can be presumed to have an adequate understanding of the criteria or (b) available only to the specified parties.

The ARSC is also asked to provide feedback as to whether there should be additional disclosures in general-use reports, such as when the engaging party is not the responsible party and the practitioner is unable to obtain representations from the responsible party.

Issue #6 - Independence Considerations

The practitioner is required to maintain independence with respect to the responsible party in all matters relating to an agreed-upon procedures engagement, both in fact and appearance, under the "Independence Rule" (AICPA, *Professional Standards*, ET sec. 1.200.001) of the AICPA's Code of Professional Conduct, and its interpretations, as modified by the "Application of the Independence Rule to Engagements Performed in Accordance With Statements on Standards for Attestation Engagements" interpretation (AICPA, *Professional Standards*, ET sec. 1.297.010), and in accordance with the "Agreed-Upon Procedure Engagements Performed in Accordance With SSAEs" interpretation (AICPA, *Professional Standards*, ET sec. 1.297.020).

Certain commenters expressed concern regarding independence considerations in the proposed standard, as follows:

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- NASBA - We also believe that the proposed standard could create threats to compliance with the AICPA *Code of Professional Conduct* “Independence Rule” [1.200.001] as it does not require any party to take responsibility for the sufficiency of the procedures. We believe that the practitioner needs to be independent with respect to the responsible party(ies), as defined in the SSAEs. The threat that a member would take on the role of attest client management, or otherwise assume management responsibilities for an attest client, could exist if no party takes responsibility for the selected procedures and determining that those procedures meet the intended purpose of the engagement.
- Piercy Bowler Taylor & Kern - The Proposal suggests (inappropriately in our opinion) on p. 4 of the explanatory memorandum therein that in a selected procedures attest engagement, “the appropriate party may not have the ability or may not otherwise be willing to perform its own measurement or evaluation of the subject matter,” but it does not suggest, as we believe it should, that such a circumstance would likely constitute a scope limitation with reporting consequences, or that the reporting practitioner’s assumption of such responsibility would likely constitute an independence impairment that would require nonacceptance of, or withdrawal from, the engagement unless it were to be conducted as a consulting service,
- PricewaterhouseCoopers LLP - The proposed SSAE has been drafted on the premise that the *Independence Standards for Engagements Performed in Accordance with Statements on Standards for Attestation Engagements* interpretation would apply. Paragraph 26 of the proposed SSAE is clear the practitioner does not take responsibility for the subject matter, which is a key element of being independent. We agree independence should be required in any attestation service. We believe it is necessary for the ARSC and the ASB more fully explore whether there are any unique considerations that need to be taken into account before moving forward with a new type of service, in coordination with PEEC.

For example, it is unclear how the elimination of the concept of responsible party in the proposed SSAE interacts with the requirement in the AICPA Code of Professional Conduct (AICPA Code) that “the *covered member* needs to be independent with respect to the responsible party(ies), as defined in the SSAEs.” We also note that AUPs are addressed separate from other attestation engagements in the AICPA Code, which leads to a question of where the proposed new service would best fit. Finally, additional guidance may also be needed in the proposed SSAE or through revisions to the AICPA Code to explain any potential implications of the practitioner designing the procedures when the responsibility party or the engaging party does not take responsibility for the sufficiency of them. In our view, it would be helpful for the ARSC and the ASB to hear directly from PEEC their views as to the new service and any potential implications on the AICPA Code.

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- Grant Thornton LLP - Because the practitioner may have expertise in relation to the subject matter or criteria, paragraph 1 of the proposed standard, among others, suggests it is appropriate for the practitioner to develop the procedures. We agree with this notion and are supportive of the flexibility it provides. However, paragraph 1 also suggests the practitioner can take responsibility for the sufficiency of the procedures. While the practitioner may have the knowledge and expertise to develop appropriate procedures, it is difficult to support the view that a practitioner who takes responsibility for the sufficiency of the procedures could also be objective relative to the outcome of the procedures. We believe that this provision could raise an issue with respect to the appearance of independence. We recommend that the proposed standard be revised to eliminate the provision allowing the practitioner to take responsibility for the sufficiency of the procedures and instead clearly indicate that the practitioner may determine or assist in determining appropriate procedures in order to meet the objectives of the engagement.
- Accounting and Auditing Procedures Committee of the Pennsylvania Institute of CPAs - As explained below, the committee believes that additional consideration should be given to how a selected procedures report influences independence, and that additional guidance should be provided as to when independence would and would not be impaired, including examples of suitable safeguards. However, since this proposed level of service is an attest service and not an assurance service, it is not clear why independence is required. If independence is not needed, the guidance should be revised to include a statement regarding the lack of independence in the report.

The committee questions whether the mere act of selecting certain procedures to perform while not selecting others creates a management participation or advocacy threat that may not be overcome. An advocacy threat could be created because the criteria selected, and procedures performed, could be used by the client to suggest implicit endorsement of its products, services, or organization. The concept of an implicit endorsement as it pertains to a third-party user would be strengthened if the client can disavow responsibility for the procedures selected. A management participation threat would likely be inherently present during the practitioner's selection of procedures if the client is unwilling to take responsibility for those procedures. Lastly, the process of selecting procedures would be vulnerable to the potential for undue influence threats. Interested parties may try to influence the procedures chosen if they feel that they do not have to accept responsibility for those procedures, thereby putting practitioners in a situation that can easily evolve into a conflict of interest. The standard should be written to better protect practitioners from these threats.

The committee believes this standard's introduction of "no-responsibility reporting" creates a multifaceted dilemma. First, in evaluating independence, should the practitioner assume that the client's unwillingness to accept responsibility creates a significant threat to independence in the realm of

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management participation, or advocacy? Second, if a client or third party suggests certain procedures be performed, does that suggestion immediately create an undue influence threat since neither the client nor the third party are willing to accept responsibility for the procedures? Third, how can those threats be overcome when no one wants to accept responsibility for the sufficiency of procedures implied in current AUP engagements?

Furthermore, if the selected procedures engagement is incorporated into the financial statements as supplementary or other information, how is the practitioner to satisfy the self-review threat imposed as it relates to the CPA's responsibilities regarding supplementary or other information if both the practitioner and the client are disclaiming that responsibility? Would changes in the report on supplementary information be required?

- Deloitte & Touche LLP - We do not believe that the proposed SSAE aligns with the existing SSAE framework in Interpretation 1.297.010, *Application of the Independence Rule to Engagements Performed in Accordance With Statements on Standards for Attestation Engagements* of the AICPA Code of Professional Conduct (the "Code"). Consequently, we are concerned that performance of a selected procedures engagement could create threats to compliance with the "Independence Rule" [1.200.001]. We have the following specific concerns:
 - Interpretation 1.297.010 states, in part, that "...when performing engagements to issue reports in accordance with the SSAEs, when independence is required.... the covered member^{fn1} needs to be independent with respect to the responsible party(ies), as defined in the SSAEs." However, the proposed SSAE does not define "responsible party" nor does it require there to be a responsible party (refer to paragraph 30b of the proposed SSAE). Accordingly, under these circumstances, it is not clear how practitioners would apply the current Code for these types of engagements. In addition, it is not clear from which party the practitioner would be expected to maintain independence.
 - Furthermore, we believe that the proposed SSAE could affect our independence as it relates to the subject matter. As stated above, Interpretation 1.297.010 requires that "the covered member needs to be independent with respect to the responsible party(ies)." Paragraph .10 of AT-C section 105, *Concepts Common to All Attestation Engagements* (AT-C 105), defines responsible party as "the party(ies) responsible for the subject matter. If the nature of the subject matter is such that no such party exists, a party who has a reasonable basis for making a written assertion about the subject matter may be deemed to be the responsible party." Paragraph 26 of the proposed SSAE requires that the practitioner does not take responsibility for the subject matter but does not require another party to take responsibility for the subject matter. Rather, for purposes of agreeing on the terms of the engagement with the engaging

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party, paragraph 30a(v) of the proposed SSAE requires the identification of either the party that is responsible for the subject matter of the engagement or the source of the subject matter; however, “responsible party” as defined in paragraph .10 of AT-C 105 does not include the concept that a responsible party can also be the “source of the subject matter.” Further, paragraph A47 of the proposed SSAE states that “there may be circumstances in which no party is responsible of the subject matter of the engagement” which we believe is contrary to the underlying premise in Interpretation 1.297.010 of the Code.

- Paragraph .01 of ET section 0.300.050 states “that a member in public practice should be independent in fact and appearance when providing auditing and other attestation services.” We do not believe that the practitioner would maintain independence in fact and appearance if the practitioner is able to (1) develop the selected procedures, and (2) assume responsibility for the sufficiency of the selected procedures and for determining that the selected procedures meet the intended purpose of the engagement (see paragraph 1 of the proposed SSAE), as currently permitted by the proposed SSAE.
- Paragraph 1 of the proposed SSAE states that “... the practitioner, the engaging party, another party, or a combination of these parties, none of whom are required to take responsibility for the sufficiency of the procedures for any purpose; however, any or all may take such responsibility.” Paragraph .13 of ET section 1.000.010 defines the management participation threat as “the threat that a member will take on the role of client management or otherwise assume management responsibilities.” In our view, such a threat could be considered to exist if the practitioner is responsible for the sufficiency of the selected procedures.

As discussed above, we recommend that the proposed SSAE be revised to require that the engaging party take responsibility for the appropriateness of the selected procedures. In addition, we believe that in order for the proposed SSAE to align with the existing Code, the proposal should require a responsible party (other than the practitioner) to assume responsibility for the subject matter. The concept of a responsible party should therefore be reinserted in the proposed SSAE and included as a definition in paragraph 8. Absent such revisions to the proposed SSAE, we believe that modifications to the AICPA *Code of Professional Conduct* and to the definition of responsible party included in AT-C 105 are necessary to incorporate guidance on the application of the independence rules to engagements contemplated under this proposal.

In addition, we believe that the Committees should work with the Professional Ethics Executive Committee (PEEC) of the AICPA to address comments arising from this proposal and consideration should be given to conducting a joint session

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of the ARSC, ASB and PEEC to discuss the comments and their resolution prior to the finalization of the proposed SSAE.

^{Fm1} Refer to paragraph .12 of ET section 0.400 for the definition of covered member.

The Task Force believes that if the project is revised so as to involve a revision to AT-C section 215 to provide for more flexibility in the performance of agreed-upon procedures engagements, many of the independence concerns are alleviated. However, the Task Force does agree with Deloitte & Touche LLP's recommendation that PEEC be consulted and requested to identify any unintended independence issues.

Action Requested of ARSC

The ARSC is asked for feedback with respect to the independence concerns expressed by commenters and direction for the Task Force with respect to addressing such concerns.

Issue #7 - Timing of the Development of the Proposed Revised AT-C section 215

As previously stated, the project is closely related to a separate project undertaken by the Auditing Standards Board's Direct Engagements Working Group.

Further, the Task Force is aware that the International Auditing and Assurance Standards Board has approved a project to revise International Standard on Related Services 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*. The Task Force is not aware of the IAASB's timeline for its project but does not believe that the ARSC's project should be delayed pending issuance of a revised ISRE 4400.

Action Requested of ARSC

The ARSC is asked for input as to a timetable for the development and ultimate issuance of the proposed revised AT-C section 215 including whether it is appropriate to develop and perhaps issue a revised AT-C section 215 prior to the issuance of the related international standard.

Agenda Items Presented:

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| Agenda item 1A | Exposure Draft proposed SSAE, <i>Selected Procedures</i> |
| Agenda item 1B | Summary of responses to specific requests for comment included in the exposure draft of the proposed SSAE, <i>Selected Procedures</i> |
| Agenda item 1C | Draft proposed revised AT-C section 215, <i>Agreed-Upon Procedures Engagements</i> |