

December 13, 2013

Ms. Sherry Hazel
Audit and Attest Standards Team
AICPA
1211 Avenue of the Americas, 19th Floor
New York, NY 10036-8775

Re: July 24, 2013 ASB Exposure Draft (ED) of a Proposed Statement on Standards for Attestation Engagements (SSAE), *Attestation Standards: Clarification and Recodification*

Dear Ms. Hazel:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC supports the new codification of the attestation standards, including the conventions used in clarifying the standards. The new structure is an improvement over existing standards and the clarified text is generally well written and easy to follow.

TIC agrees with the Board's decision to provide a section of Common Concepts, which are applicable to all attestation engagements. Given the wide diversity of potential attestation engagements, TIC supports a "building block" structure for the standards that would require the practitioner to read the Common Concepts, the appropriate chapter for the level of service to be performed and any applicable subject-matter chapter. TIC believes this structure will reduce the excessive redundancy in the standards that would otherwise result. TIC has no objection to retaining the Agreed-Upon Procedures (AUP) guidance in the attestation standards.

TIC believes the objectives of the practitioner for each chapter are appropriate and approves of the changes made to the existing SSAEs in developing the new chapters. TIC

did not identify any need for special considerations for less complex or governmental entities.

TIC found the side-by-side columnar format, which places the application paragraphs next to the requirements to which they relate, to be much easier to read and understand than the traditional clarity format. TIC understands that the final standards cannot be published in this format, but appreciated its use in the exposure draft stage.

The section that follows includes comments on specific paragraphs in each of the chapters. Most of the comments include requests for clarity in specific paragraphs or additional guidance.

SPECIFIC COMMENTS

Chapter 1: Common Concepts

Explanatory Memorandum, page 6, 1st complete bullet

The bullet entitled *Incorporation of detailed requirements* provides some very helpful information about why certain detailed requirements from the SASs have been added to one or more of the clarified attestation standards. TIC believes this is useful information and recommends that it be carried forward to the Introduction of the Common Concepts chapter in the subsection entitled Relationship to Other Pronouncements.

Paragraph 1.A1 – Subject matter of an attestation engagement – Editorial Comment

TIC believes the lead-in sentence to this paragraph should emphasize that the bullet list of subject matter is not meant to be all-inclusive. TIC therefore recommends that the sentence be changed to:

The subject matter of an attestation engagement may take many forms, including, but not limited to, the following:

Paragraph 1.A1 – Subject matter of an attestation engagement – Audit v. Examination

TIC has observed that practitioners are often confused about the differences between an examination and an audit since both engagements involve obtaining reasonable assurance but use different terminology. Paragraph 1.A1 implies that the key difference between the two relates primarily to the subject matter of the engagement. However, paragraph 1.A1(a) states that the subject matter of an attestation engagement could include historical financial information. This could cause confusion as to what type of financial information would be subject to the audit literature v. the attestation literature.

Therefore, TIC recommends adding a sentence to the introduction that would clarify that the “subject matter” of an audit is generally historical financial statements or specific elements, accounts or items of a financial statement; while the subject matter of an

examination or other attestation engagement is generally limited to prospective financial information, pro forma information, financial statistics or metrics or nonfinancial information as described in paragraph 1.A1. Additional clarification should be added to describe the types of attestation engagements that would apply to historical financial information (e.g., AUP engagements).

Paragraph 1.10(f) – Definitions – Engagement Partner

TIC believes the definition of engagement partner should be updated to refer to partner equivalents rather than the “other person in the firm” who may be granted signing authority for attestation engagements. In March 2013, the Professional Ethics Executive Committee (PEEC) adopted a new definition of partner equivalents. In part, the new definition states:

A partner equivalent is a professional employee who is not a partner of the firm as defined in paragraph .27 [definition of “partner”], but who

- a. has the authority to bind the firm to conduct an attest engagement without partner approval (for example, the professional employee has the authority to sign or affix the firm’s name to an attest engagement letter or contract to conduct an attest engagement without partner approval); or*
- b. has the ultimate responsibility for the conduct of an attest engagement, including the authority to sign or affix the firm’s name to an attest report or issue, or authorize others to issue, an attest report on behalf of the firm without partner approval.*

TIC therefore suggests the definition of engagement partner in the ED be revised as follows:

Engagement partner. *The partner or partner equivalent in the firm who is responsible for the attestation engagement and its performance and for the attestation report that is issued on behalf of the firm and who, when required, has the appropriate authority from a professional, legal, or regulatory body. Engagement partner, partner, partner equivalent and firm refer to their governmental equivalents when relevant.*

In addition, the definition should refer to a footnote or application paragraph that would provide a cross-reference to the AICPA *Code of Professional Conduct*, ET Section 92.28, for the specific definition of partner equivalent.

Paragraph 1.A9 – Definitions – Attestation Risk

TIC noted that paragraph 1.10(c) defines attestation risk in the context of audits and reviews. However, paragraph 1.A9, which explains why attestation risk cannot be reduced to zero, discusses the issue in the context of examinations only. TIC agrees that attestation risk applies to both examination and review engagements and believes that

the final standard should provide more guidance on the concept of attestation risk in a review engagement. Therefore, TIC recommends adding another application paragraph to address the inherent limitations of a review engagement and the notion that attestation risk would be higher in a review than in an examination.

Paragraph 1.18 and 1.A21 – Attestation Report Prescribed by Law or Regulation

TIC believes additional clarity is needed regarding the reference in paragraph 1.18 to attaching an “appropriately worded separate report” when an attestation report prescribed by law or regulation does not conform to professional standards. TIC therefore recommends that the last line of the paragraph be revised as follows:

...the practitioner should reword the prescribed form of report or attach an appropriately worded separate report that complies with the reporting requirements of the relevant attestation standard.

TIC also noted that the reporting issues cited in paragraph 1.18 have been occurring in audit engagements that involve reports prescribed by regulators and that the AICPA has issued guidance to address them on its web site:

<http://www.aicpa.org/InterestAreas/FRC/AuditAttest/Pages/RegulatorPrescribedAuditorsReports.aspx>

Although this issue may not be a common occurrence under the extant attestation standards, TIC believes that guidance should be made available in case the problem arises under the clarified standards. TIC therefore recommends that paragraph 1.A21 be expanded to advise practitioners to:

- Contact the regulator to determine if the regulator will accept a reworded form or separate report
- Contact the applicable state society to work with the member and the regulator to resolve the issue, especially if the regulator will not accept a reworded report.

The suggested guidance was adapted from the above web link.

Paragraph 1.23 – Acceptance and Continuance – Predecessor Accountants

TIC noted that none of the attestation chapters includes guidance on predecessor/successor communications. Such guidance would be especially relevant when the subject matter in the current year is related to or based on the subject matter from the prior year. TIC believes this guidance is necessary and should be added as application guidance to paragraph 1.23.

The suggested guidance could be adapted from AU-C 510 and would suggest, in part, that the practitioner may wish to initiate a request of management, either before or after engagement acceptance, to authorize the predecessor to allow the successor to review

the prior period documentation and for the predecessor to respond fully to inquiries by the successor. TIC also recommends that additional guidance from AU-C 510.A3-.A11 be considered for inclusion in the Chapter 2, *Examination Engagements*, and Chapter 3, *Review Engagements*, as appropriate.

Paragraph 1.24 – Preconditions for an Attestation Engagement - Independence

This paragraph addresses reporting considerations when the practitioner is not independent with respect to the attest engagement but is required to report by law or regulation. The second sentence of the paragraph seems incomplete, since it does not address reporting requirements in a review or AUP engagement. TIC is uncertain whether these two attest engagements would be applicable to reporting under law or regulation. However, TIC requests that the Board consider whether this eventuality could occur and, if so, provide the appropriate requirements. TIC suggests revised wording as follows, if applicable:

When the practitioner is not independent but is required by law or regulation to report on the subject matter or an assertion, the practitioner should specifically state in the report that the practitioner is not independent and should disclaim an opinion or conclusion on an examination or review engagement, as appropriate.

Paragraph 1.A51 – Quality Control – Assignment of the Engagement Team and the Practitioner’s Specialists

An editorial correction is needed to this paragraph to provide consistent referencing to other chapters in the ED and to clarify that footnote 10 applies to review engagements as well as to examinations:

When the work of a practitioner’s specialist is to be used, it may be appropriate to perform some of the procedures required by chapter 2¹⁰ in an examination or chapter 3¹⁰ in a review engagement at the engagement acceptance or continuance stage.

Paragraph 1.34 – Documentation – Lockdown

TIC agrees with the proposed lock-down process for attest documentation. TIC recommends, however, that this requirement should be emphasized in any implementation guidance that accompanies the rollout of the final standard. The requirement would represent a significant change in practice for those practitioners that have not previously implemented lockdown procedures.

Paragraph 1.41 – Professional Skepticism

Page 15 of the Explanatory Memorandum emphasizes that:

In all services provided under the attestation standards, practitioners are responsible for maintaining professional skepticism.

This concept is repeated in the requirement paragraph 1.41:

The practitioner should plan and perform an attestation engagement with professional skepticism.

These statements would extend the concept of professional skepticism beyond examinations to encompass review and AUP engagements. TIC does not support extending this concept beyond “reasonable assurance” engagements. To do so would be inconsistent with the approach taken in the Statements on Standards for Accounting and Review Services (SSARSs) relating to reviews of historical financial statements. Neither the extant review SSARS nor the proposed clarified review SSARS mentions the concept. It is addressed only in the audit literature.

TIC is aware that the IAASB believes that professional skepticism applies to all assurance engagements, including reviews of historical financial statements and reviews of other subject matter. However, TIC believes it would not be appropriate to establish the term for all attestation engagements in view of the fact that ARSC has decided not to use the term for review engagements under the SSARS.

TIC therefore recommends that the “professional skepticism” guidance be moved to the Examinations chapter and that paragraph 1.41 be removed from the Common Concepts chapter. As an alternative, the Board may wish to restore some of the verbiage from extant AT 101.36 and .37 into the Common Concepts chapter. These paragraphs include some of the concepts of professional skepticism.

For example, paragraph .36 requires the practitioner to maintain intellectual honesty and impartiality to order to reach an unbiased conclusion about the subject matter or the assertion. Paragraph .37 explains independence in mental attitude and refers to the importance of honest neutrality in forming and expressing conclusions, without assuming that management is either honest or dishonest. TIC believes this approach would bring in the important concepts without confusing practitioners as to the meaning of professional skepticism in a review or AUP engagement.

If the Board decides to retain paragraph 1.41 of the ED, as written, TIC recommends that additional guidance be added to the Review and AUP chapters to clarify the Board’s intent in the context of those engagements.

Paragraph 2.4 – Conduct of an Examination Engagement – New Application Paragraph

To clarify the intent of the standards for those who may be performing these engagements for the first time, TIC believes the examination, review and AUP chapters should each include an application paragraph explaining that the subject-matter chapters are to be read with the Common Concepts chapter and the relevant chapter for the type of engagement to be performed. Illustrative language for the new application paragraph, which would link to paragraph 2.4 in the Examinations chapter, follows:

For example, if performing an examination of prospective financial information, the Common Concepts chapter, the Examinations Chapter and the chapter on Prospective Financial Information would apply.

The suggested application paragraphs would mitigate the risk that practitioners would miss subject-matter guidance that is applicable to their engagements and would serve to illustrate the new structure of the attestation standards.

Paragraph 2.56 – Modified Opinions – Adverse Opinion

Paragraph 2.56 mentions adverse opinions, but there is no discussion about what circumstances would require an adverse opinion or what it means other than the grid in paragraph 2.A96. TIC recommends adding a sentence to paragraph 2.56 to establish a requirement indicating when an adverse opinion would be appropriate, as follows:

The practitioner should express an adverse opinion when the practitioner, having obtained sufficient appropriate evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the subject matter.

TIC also suggests that an example of an adverse opinion be added to the exhibit of illustrative examination reports.

Paragraph 2.56 – Modified Opinions -Terminology

TIC noted that the Examination chapter refers to “modified opinions” without defining the term. Since the term is being used in the attestation standards for the first time, TIC recommends that a formal definition be provided either in a Definitions section for Chapter 2 or in the paragraph that includes the first mention of the term (paragraph 2.52(h)).

TIC also noted inconsistent use of the terms modified opinion and qualified opinion as well as unmodified and unqualified opinions. For example, paragraph 2.A84 refers to unqualified and qualified opinions, respectively, when unmodified and modified opinions would seem to be what was intended. TIC recommends that use of these terms be reviewed and conformed, as necessary, throughout the document.

Chapter 3: Review Engagements

Paragraph 3.A8 – Planning and Performing the Engagement

The first sentence of this paragraph states:

Planning is not a discrete phase, but rather a continual and iterative process throughout the engagement.

In the interest of simplicity, TIC recommends that the phrase “continual and iterative process” be replaced with a more commonly used phrase, such as “continuous process.”

Paragraph 3.18b – Analytical Procedures

When designing and performing analytical procedures, paragraph 3.18b states that the practitioner should evaluate the reliability of data from which the practitioner’s expectation is developed, taking into account, among other factors, the controls over their preparation. TIC recommends deleting the phrase “controls over their preparation” since the practitioner has no requirement to evaluate controls in a review engagement.

Paragraph 3.26 – Using the Work of a Practitioner’s Specialist, Internal Auditors or Other Practitioners

This paragraph directs the practitioner to follow the requirements and guidance in the examinations chapter, as appropriate, for a review engagement that involves use of a specialist, internal auditor or another practitioner. Conceptually, this seems problematic. In an examination engagement, the practitioner is performing procedures to obtain reasonable assurance; while, in a review engagement, the practitioner is obtaining only limited assurance. Shifting back and forth between parts of chapters based on different types of engagements with different levels of assurance is also inefficient and could lead to misapplication of the standards. Without proper guidance, practitioners may have varying interpretations of the procedures that would be appropriate for a review v. an examination. TIC recommends that the Board decide the extent of the procedures necessary in a review engagement and include such procedures in the review chapter without directing the practitioner to the examinations chapter.

Paragraph 3.36 – Requested Written Representations Not Provided or Not Reliable

This paragraph addresses the practitioner’s responsibilities when the engaging party and the responsible party are the same and written representations are not provided or are unreliable. Paragraph 3.36c states that the practitioner should “take appropriate action” after discussing the matter with the appropriate parties, re-considering the integrity of the parties and evaluating the effect that this matter may have on the reliability of representations and review evidence in general.

However, a different conclusion was reached when the engaging party is different than the responsible party. Paragraph 3.37 concludes, in part, that if one or more of the requested representations are not provided in writing or orally from the responsible party in accordance with paragraph 3.33(b), a scope limitation exists, and the practitioner should withdraw. TIC believes the failure to obtain written representations in a review engagement would represent a scope limitation in either case and recommends that paragraph 3.36c be changed from “take appropriate action” to “withdraw.”

Chapter 4: Agreed-Upon Procedures

Paragraph 4.24 – Written Representations

This paragraph states:

This chapter does not require the practitioner to request a written assertion from the responsible party. However, a practitioner may choose to request such an assertion. If the engaging party is the responsible party and refuses to provide a written assertion, the practitioner should withdraw from the engagement.

TIC believes this paragraph is technically incorrect, since withdrawal would only be necessary if the practitioner requests a written assertion and the responsible party refuses to provide it. TIC recommends the following revision to the above paragraph to clarify its intent:

This chapter does not require the practitioner to request a written assertion from the responsible party. However, a practitioner may choose to request such an assertion. If the engaging party is the responsible party and refuses to provide a written assertion requested by the practitioner, the practitioner should withdraw from the engagement.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Scot Phillips, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees