



## Agenda Item 3

### Discussion Memo: Proposed Clarified Attestation Standards

#### Objectives of Agenda Item 3

1. To vote to ballot for final issuance chapters 1-4 of the July 24, 2013 exposure draft *Attestation Standards: Clarification and Recodification* (July 2013 ED) marked from the draft presented to the Auditing Standards Board (ASB) at its January 12-15, 2015 meeting, as well as the preface to the attestation standards
2. To vote to ballot for final issuance chapters 5-7 of the January 28, 2014 exposure draft *Subject-Matter Specific Attestation Standards: Clarification and Recodification* (January 2014 ED) marked from the draft presented at the January 12-15, 2015 ASB meeting

(Actual issuance of the chapters will not occur until all of the chapters are finalized, at which time they will be issued as a single Statement on Standards for Attestation Engagements.)

3. To discuss how to best address an issue raised by the Sustainability Task Force

#### Background

In clarifying the attestation standards, the ASB began by clarifying the general attestation standards, which provide a framework for performing and reporting on examination, review, and agreed-upon procedures engagements. The requirements and application guidance in chapter 1, "Concepts Common to All Attestation Engagements," of the proposed clarified attestation standards are applicable to any attestation engagement. Examination, review, and agreed-upon procedures engagements are addressed in separate chapters (chapter 2, "Examination Engagements;" chapter 3, "Review Engagements;" and chapter 4, "Agreed-Upon Procedures Engagements"). These chapters build on the common concepts chapter and include performance and reporting requirements and application guidance tailored to the specific type of engagement. The subject-matter specific chapters (chapters 5-7) build on chapters 1-4.

The term *chapters* rather than *sections* is used in the ED; however, ultimately the clarified chapters will be codified in AICPA *Professional Standards*, and will be referred to as AT sections.

The most significant substantive change is the addition to chapter 2 of the internal audit guidance (paragraphs 2.39-2.44 and 2.A43-2.A44) that the ASB directed the task force to add at its January 2015 meeting. In addition, the drafts reflect a significant number of changes resulting from a review performed by the Attestation Task Force to eliminate inconsistencies in

language and format between the chapters. These consistency revisions are not intended to be substantive.

The ASB discussed revisions to the July 2013 ED at its October 2014 and January 2015 meetings. Therefore, it is expected that the discussion of chapters 1-4 will consist of a fatal flaw review. Although the ASB discussed revisions to the January 2014 ED only once (January 2015 ASB meeting), the changes were not complex.

### **Issue: Large Measurement Uncertainty**

The AICPA Sustainability Task Force is drafting a proposed attestation standard that addresses examinations and reviews of sustainability information and, simultaneously, a guide that provides more detailed implementation guidance.

The Sustainability Task Force has identified an issue regarding the measurement of certain types of sustainability information. The issue arises when there are two or more suitable criterion that can be used by management to perform certain measurements of sustainability information and the two methods result in measurement differences that exceed materiality. The question is how does a practitioner deal with such measurement uncertainty? As a result, the Sustainability Task Force asked the Attestation Task Force to consider proposed revisions to chapters 2 and 3 of the attestation standards. Because the Attestation Task Force is so far along in its deliberations, the task force concluded that such revision should not be undertaken at this point because it would unduly delay the project. Some members of the Attestation Task Force believe that the issue should be addressed by the Sustainability Task Force and then by the ASB when it debates the proposed sustainability attestation standard. This approach would avoid delaying the vote on the clarified attestation standards.

At its May meeting, the ASB is being asked to consider and decide whether

- 1 voting on chapters 1-4 should be deferred while the Attestation Task Force takes up the measurement uncertainty issue, an option that would likely result in the need to issue a new exposure draft for at least chapters 2 and 3, or
- 2 the examination and review issues should be dealt with by the Sustainability Task Force and then by the ASB. The issue might be resolved exclusively within the sustainability standard or, if the ASB concludes that the issue has wider applicability, any necessary conforming changes to chapters 1-4 could be exposed for comment when the sustainability standard is exposed.

At this point, this is not a matter of whether the issue will be considered, debated, and resolved. It is merely a question of process and whether the ASB is willing to (1) vote out (but not issue) chapters 1-4 as those chapters are presented at this meeting, and then (2) expose any conforming changes to chapters 1-4 later when the sustainability standard is exposed for comment. It is the staff's recommendation that the cleaner approach would be option 2—to vote out (not issue, but conduct the vote on) the attestation standards as presented and then address the measurement uncertainty matter in the context of the sustainability discussion and standard.

### **Agenda Materials**

The agenda materials for the discussion of the ED are the following:

- Item 3A: Chapter 1, "Concepts Common to All Attestation Engagements," marked from the January 12, 2015 draft
- Item 3B: Chapter 2 "Examination Engagements," marked from the January 12, 2015 draft
- Item 3C: Chapter 3 "Review Engagements," marked from the January 12, 2015 draft
- Item 3D: Chapter 4 "Agreed-Upon Procedures Engagements," marked from the January 12, 2015 draft
- Item 3E: "Preface to the Attestation Standards," marked from the ED
- Item 3F: Chapter 5, "Financial Forecasts and Projections," which was renamed "Prospective Financial Information" at the January 2015 ASB meeting (clarifies AT section 301)
- Item 3G: Chapter 6, "Reporting on Pro Forma Financial Information" (clarifies AT section 401)
- Item 3H: Chapter 7, "Compliance Attestation" (clarifies AT section 601)

#### Members of the Attestation Recodification Task Force

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