



## Agenda Item 6

### *Direct Engagements, Discussion Memo*

#### **Objective**

The Direct Engagements Task Force (task force) is requesting comments from the ASB on a draft of a proposed attestation standard entitled *Direct Engagements*.

#### **Background**

The task force has been charged with developing an attestation standard that would enable practitioners to examine or review subject matter under the attestation standards without having to request a written assertion from the responsible party. The proposed standard would be an additional section of the clarified attestation standards.

Paragraph 10 of AT-C section 105, *Concepts Common to All Attestation Engagements*, defines an *assertion* as any declaration or set of declarations about whether the subject matter is in accordance with (or based on) the criteria. The clarified attestation standards (AT-C sections 105-320) require the practitioner to request a written assertion from the responsible party. AT-C section 105 defines *responsible party* as the party responsible for the subject matter.

The task force has developed a proposed attestation standard entitled *Direct Engagements* (Agenda Item 6A). The standard is based on extant AT-C sections 105; 205, *Examination Engagements*; and 210, *Review Engagements*. In the proposed attestation standard, engagements for which a practitioner is required to request a written assertion are referred to as *assertion-based engagements* and engagements for which a practitioner is not required to request a written assertion are referred to as *direct engagements*.

In July 2015, the Canadian Auditing and Assurance Standards Board issued Canadian Standard on Assurance Engagements (CSAE) 3001, *Direct Engagements*. The task force initially prepared a draft of the proposed attestation standard based on CSAE 3001 but found that too many changes to CSAE 3001 were needed to make the proposed standard consistent with the terminology and concepts included in the clarified attestation standards, for example, the term *subject matter* is used in the clarified attestation standards and the term *underlying subject matter* is used in CSAE 3001. The task force believes that the proposed standard needs to be consistent with the other clarified attestation standards because it will be a section of those standards. The primary difference between an assertion-based engagement and a direct engagement is that the practitioner is not required to request a written assertion from the responsible party. The work effort and level of assurance obtained by the practitioner in a direct engagement is the same as it is in an assertion-based engagement. To allay concerns about differences between the proposed

standard and CSAE 3001, and to enable the ASB to compare the proposed attestation standard to CSAE 3001, the task force has developed the following agenda materials:

Agenda Item 6 B: A matrix that maps the introductory and requirement paragraphs of AT-C sections 105, 205, and 210 (the first column) to the related paragraphs in CSAE 3001 (the third column). The middle column is a marked draft of the first column showing the changes made to AT-C sections 105, 205, and 210 to create the proposed attestation standard.

Agenda Item 6C: A matrix that maps the application paragraphs of AT-C sections 105, 205, and 210 (the first column) to the related paragraphs in CSAE 3001 (the third column). The middle column is a marked draft of the first column showing the changes made to AT-C sections 105, 205, and 210 to create the proposed attestation standard

The following are some of the features of a direct engagement as presented in the proposed standard:

- The practitioner does not request a written or oral assertion from the responsible party
- The practitioner is required to request written representations from the responsible party. If the engaging party is not the responsible party, and the responsible party refuses to provide one or more written representations, the practitioner is required to request oral representations from the responsible party and to restrict the use of the report to the engaging party
- The proposed standard addresses direct examination engagements and direct review engagements.
- It is assumed that in most engagements, the practitioner prepares the subject matter, if applicable, and in all engagements the practitioner performs the measurement or evaluation of the subject matter against the criteria.
- The service is engagement driven meaning that the proposed direct engagements standard would be applicable when the practitioner is engaged to perform that service. The common concepts section includes factors for the practitioner to consider in determining whether to perform the engagement under the assertion-based attestation standards or the direct engagements standard.
- The responsible party's inability to provide an assertion may increase the risk that the subject matter is not in accordance with the criteria.
- The GAO's performance audit is not addressed by the proposed direct engagements standard. Such engagements should be performed under Government Auditing Standards or under AT-C section 205.

- The practitioner's report for a direct engagement differs from the practitioner's report under AT-C sections 205 or 210.
- The proposed standard includes illustrative reports

**Direct Engagements Task Force**

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