



Agenda Item 8

New Services

Objective of Agenda Item

- To further discuss a proposed “direct engagement” standard and other additional standards that would provide an assurance alternative to the existing attestation model
- To obtain direction from the ASB that will guide the task force in developing the proposed standard.

Current Situation

1. An important feature of the existing attestation model is that the responsible party is required to provide the practitioner with an assertion. For the purpose of this discussion, an assertion is any declaration or set of declarations about whether the subject matter is based on or in conformity with the criteria selected.

2. Practitioners are often asked to provide services they ordinarily would perform under Statements on Standards for Attestation Engagements (SSAEs or attestation standards) but are precluded from performing because the responsible party will not provide the practitioner with an assertion. The responsible party may be reluctant to provide such an assertion because the responsible party is uncertain about whether, or the extent to which, the subject matter is based on the criteria, and is looking to the practitioner to make that determination. Common challenges to using AT section 201, *Agreed Upon Procedures Engagements*, are that the engaging party may wish to distribute the agreed-upon procedures (AUP) report to parties other than the specified parties (for example, customers) or that the specified parties are unable to agree upon the procedures to be performed, both of which are conditions that make performing the engagement under AT section 201 problematic.

3. The U.S. Government Accountability Office, International Audit and Assurance Standards Board, and some national standard setters (for example, Canada and Australia) have developed, or are in the process of developing, assurance standards that do not require the responsible party to make an assertion. These engagements have been termed *direct engagements*.

4. Like attestation engagements, direct engagements require

- the practitioner to be independent of the subject matter,
- the criteria to be suitable,
- the practitioner to obtain reasonable assurance in an examination engagement and limited assurance in a review engagement, and
- the practitioner to provide a report.

Typically, these reports are longer and provide more insight into the procedures performed, the specific items tested, and the results of those tests. The proposed standards may, or may not, require that the report contain a separate “opinion” or “conclusion.”

5. In addition to not requiring the responsible party to provide an assertion, direct engagements may also have the following characteristics:

- The practitioner may determine the criteria for the engagement, or if suitable criteria do not exist, may develop the criteria.
- The practitioner often is the original or only measurer or evaluator of the subject matter.
- The practitioner may develop the subject matter information.

6. A task force of the ASB is currently charged with drafting a direct engagement standard for consideration by the ASB. Concurrent with the task force's discussion, the Audit Issues Task Force (AITF) listened to a presentation about, and discussed whether, different direct engagement assurance standards should be developed.

7. As a result of the task force and AITF discussions, AICPA staff proposed a revised structure for Statements on Standards for Attestation Engagements (SSAEs or attestation standards) that would consist of a section that addresses engagements requiring an assertion (essentially the existing AT sections with the possible exception of agreed-upon procedures engagements [AUPs) and a separate new section for standards that do not require an assertion. (See "Proposed Codification Structure for Attestation Standards" on page 5.)

Possible Way Forward

8. The new section would enable practitioners to:

- examine subject matter against criteria by
 - performing work and obtaining evidence similar to the work required by AT section 101, *Attest Engagements*, for an examination engagement, without obtaining a written assertion from the responsible party; and
 - providing the engaging party with a report that includes an evaluation of the subject matter in relation to the criteria. (The task force is not yet in agreement about whether a separate opinion would be required.)
- apply specified procedures to subject matter in relation to criteria by
 - developing procedures, along with the client, that the practitioner believes meet user needs;
 - applying those procedures to the subject matter; and
 - providing the engaging party with a report (similar to an AUP report) that includes a written description of the procedures performed, the findings, and a paragraph that describes the nature of the engagement, without restricting the use of the report.

9. These standards would provide the practitioner with greater flexibility to meet client needs and user expectations by enabling the practitioner to have the option of performing the engagement under the extant attestation standards (in which an assertion would be required), under the proposed new standards (in which an assertion would not be required), or under the consulting standards.

ASB Considerations

10. The task force has been debating whether a proposed direct examination standard would provide the practitioner with the ability to obtain reasonable assurance, and even if it does, whether

the standard should require an opinion similar to that in AT section 101, *Attest Engagements*. Some task force members have suggested that even if the practitioner's work effort is sufficient to obtain reasonable assurance, the report should not have the same type of opinion as an assertion-based examination due to the differences between the two engagements.

11. The ASB is being asked to provide its views about obtaining reasonable assurance. One position is that without obtaining an assertion and with the possible attributes of a direct engagement identified in paragraph 5, a practitioner would be unable to obtain reasonable assurance. Another position is that an assertion provides little or no evidence and therefore a practitioner can still obtain reasonable assurance by properly planning the engagement and obtaining sufficient appropriate evidence.

12. Even if reasonable assurance is obtained, the ASB is being asked to provide its views about whether a proposed direct examination standard should require the same opinion as that provided for in an assertion-based examination. One could argue that if a practitioner obtains a reasonable level of assurance, the standard should require a similar opinion. Another argument is that because of the differences in the two engagements, there should be a distinction between the two types of reports; therefore, a direct engagement should not require the same type of opinion as an assertion based examination. Given that the direct engagement report would be a longer form of report include the practitioner's findings, the standard should not require an overall opinion. Another type of overall conclusion may or may not be appropriate.

Questions for the ASB

1. What are the ASB's views regarding whether a practitioner can obtain reasonable assurance without obtaining an assertion from the responsible party and with the possible attributes of a direct engagement identified in paragraph 5?
2. If the concept of reasonable assurance is not used, what should the baseline be for a direct examination engagement in terms of obtaining some level of evidence? For example, should the baseline be reducing attestation risk to an acceptable low level? In other words, what is the practitioner's objective in obtaining evidence?
3. What are the ASB's views regarding the expression of an opinion given the differences between an assertion based examination and a direct examination engagement? To differentiate the two, what are the ASB's views about a long form report with findings but no opinion? Should the standard require some form of overall conclusion (clearly distinguished from an attestation opinion) or allow that as an option but not a requirement?

Specified Procedures

13. As explained in the table in Agenda Item 8A, the task force and AITF have also discussed the creation of a specified-procedures engagement. A specified-procedures engagement would be similar to an AUP engagement but with some key differences. In a specified-procedures engagement, unlike an AUP engagement,

- the responsible party would not be required to provide an assertion;
- the client, or the practitioner in cooperation with the client, would develop the procedures to be performed (therefore there would be no need to have other expected report users agree to the sufficiency of the procedures); and

- because the engagement is not being conducted to meet the specific needs/objectives of one or more of the intended users, there would be no requirement to restrict the use of the report.

Review Engagements

14. The task force has not discussed whether a review standard should also be developed. There is likely to be a need for a “lesser assurance” standard but until some other issues are resolved, the task force has essentially only discussed a high level assurance standard.

Questions for the ASB

4. What are the ASB’s views regarding the development of a specified-procedures engagement? If the practitioner or the client determines the limited procedures to be performed, would use of the report need to be restricted? If the client asks the practitioner to develop the procedures to be performed, would the client still need to take responsibility for the procedures?

5. Should the proposed standards provide for a review level direct engagement, or would the specified-procedures engagement be sufficient? What would be the difference between a specified-procedures engagement and a review engagement, given that both engagements would involve limited procedures?

6. What comments do ASB members have regarding the table in Agenda Item 8A?

Proposed Codification Structure for Attestation Standards

Prepared by: Andy Mrakovcic

Contents

AT-C *Attestation Standards—Engagements Requiring Assertions*

AT-N *Attestation Standards—Engagements Not Requiring Assertions* Page XXX

AT-C Introduction

Foreword

AT-C Preface—*Preface to the Attestation Standards—Engagements Requiring Assertions*

AT-C Glossary—*Glossary of Terms*

AT-C 100–199 Common Concepts—Engagements Requiring Assertions

AT-C 105 *Concepts Common to All Attestation Engagements*

AT-C 200–299 Level of Service Standards—Engagements Requiring Assertions

AT-C 205 *Examination Engagements*

AT-C 210 *Review Engagements*

AT-C 215 *Agreed-Upon Procedures Engagements*

AT-C 300–399 Subject Matter Standards—Engagements Requiring Assertions

AT-C 305 *Financial Forecasts and Projections*

AT-C 310 *Reporting on Pro Forma Financial Information*

AT-C 315 *Compliance Attestation*

AT-C 320 *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*

AT-C 325 *Examination of Internal Control Other Than Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements* (placeholder page in the SSAE and in *Professional Standards* that explains that SSAE 18 designates AT-C 325 for this standard, to be issued subsequent to SSAE 18)

AT-C 395 *Management's Discussion and Analysis* (placeholder page in the SSAE that explains that SSAE 18 designates AT-C 395 for this standard, carried forward indefinitely unconfirmed and unclarified; this section in *Professional Standards* would contain a copy of what's in AT 701 so that upon the effective date of SSAE 18, all of the extant AT material can be deleted without losing AT 701)

AT-N Introduction

Foreword

AT-N Preface—*Preface to the Attestation Standards—Engagements Not Requiring Assertions*

AT-N Glossary—*Glossary of Terms*

AT-N 100–199 Core Concepts—Engagements Not Requiring Assertions

AT-N 105 *Concepts Core to All Attestation Engagements*

AT-N 200–299 Direct Engagement—Engagements Not Requiring Assertions

AT-N 205 *Direct Engagements—Obtaining Reasonable Assurance*

AT-N 210 *Direct Engagements—Obtaining Limited Assurance*

AT-N 300–399 Specified Procedures—Engagements Not Requiring Assertions

AT-N 305 *Specified Procedures*