

Agenda Item 6



Specified Procedures Engagements

Objective of Agenda Item

To obtain feedback from the ASB on issues related to a proposed standard dealing with engagements to perform specified procedures.

Background

The Specified 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 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 Task Force (Cathy Schweigel) have observer rights to the Task Force meetings.

The Task Force was charged by the ARSC and the ASB to develop a standard that would result in a new service in which CPAs would perform procedures and report on the results of those procedures – without being required to request or obtain an assertion from the engaging party or restrict the use of the report. Consistent with both Statements on Standards for Accounting and Review Services (SSARSs) and Statements on Standards for Attestation Engagements (SSAEs), the proposed standard will require the practitioner to comply with relevant ethical requirements such as professional competence, objectivity, and due professional care. The proposed standard, consistent with the SSARSs and SSAEs, will also require that the engagement be adequately planned and supervised, that sufficient evidence be obtained, and that an appropriate report be issued.

The project is a joint effort of the ARSC and the ASB.

The Task Force was given the following directives in the development of the proposed standard:

- The standard is to be engagement driven
- No assertion is required to be requested or obtained

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- The service is not an assurance service
- The report would resemble an agreed-upon procedures report in that it would present procedures and related findings
- There would be no requirement to restrict the use of the report

The project was initiated by the ARSC and the ASB to address a need to fill in a significant market gap which exists between what a practitioner can do as a “verifier” (in accordance with the current SSAEs) and “adviser” (in accordance with current consulting standards). By not requiring an assertion, or setting an expectation that the engaging party had previously performed the procedures, practitioners will often be in the position of performing the initial measurement, and not just being in the role of verifier that is typically the case in an engagement performed in accordance with the SSAEs. Therefore, users of CPA services will benefit from a new service. For example, the market currently is limited in benefiting from a CPAs’ services when:

- Engaging party may not be in a position to make an assertion (e.g., engaging party may not be the responsible party)
- It may not be possible or appropriate for the engaging party to perform the initial measurement (e.g., balloting, union election, lottery, or benchmarking services, or the engaging party does not have the appropriate skills or knowledge)
- All users may not have the same objective or be able to agree to the sufficiency of the procedures (e.g., government limitations or use of the report varies by user)
- The CPA may not know what procedures to perform prior to commencement of the engagement
- The report is restricted for use and there is a need for a general use report

The practitioner’s report on specified procedures may be beneficial to and used by a broad number of parties (for example, customers) as opposed to being restricted to just specified parties that provide acknowledgement of the sufficiency of the procedures. Each user of the specified procedures report would make their own determination on how the report is to be used and relied upon based upon the procedures performed and the results of the procedures.

Examples of situations where a specified procedures service may be performed include:

- A company wants a report on a measurement of progress on an initiative. Such as:
 - Areas prior to obtaining examination level of assurance such as progress towards meeting AICPA Principles & Criteria (e.g. Cyber). Not waiting until the comprehensive criteria are fully met, but measuring progress and communicating interim thresholds/goals to the market – i.e. procedures and the results of procedures

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- Procedures/findings specific divisions/operating units are making towards a company's established set of criteria (e.g. minority hiring goals) that may be distributed to all employees
- Progress to employees (e.g. maybe certain performance or quality metrics)
- Company wants to evaluate suppliers. Specified procedures would go to both supplier (responsible party) and Company (engaging party). Reports may be made available to the greater market.
- Company has a known 'market issue' (e.g., Cyber breach, regulatory violation/order, product reputation failure) and wants a practitioner to perform certain procedures and report to their customer base.
- Internal audit outsourcing

Based upon the preceding, the Task Force is considering the development of a proposed standard for a specified procedures engagement with the following characteristics:

- Either the practitioner, the engaging party, or an other party could develop the procedures but the engaging party would be required to take responsibility for the sufficiency of the procedures.
- The practitioner would be precluded from performing a specified procedures engagement when the practitioner is aware that the engaging party :
 - Plans to engage a practitioner to perform a specified procedures engagement instead of an agreed-upon procedures engagement as required by applicable laws or regulations, contract, or market practices (for example, royalty audits), or
 - Has a responsibility, pursuant to applicable laws or regulations, contract, or market practices, to:
 - Conclude the subject matter is in accordance with the criteria,
 - Measure the subject matter against certain criteria (for example, regulations), or
 - Conduct an engagement addressed by existing agreed-upon procedures guidance.
- The practitioner would not be required to be independent but, if the practitioner is not independent, the impairment would be required to be disclosed in the specified procedures report.
- No assertion is required to be requested or obtained.
- Written management representations would not be required but, similar to the pre-clarity agreed-upon procedures standard, the standard provides examples of situations in which the practitioner may find obtaining representations to be useful.

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- No requirement to restrict the use of the specified procedures report – unless the practitioner determines it appropriate to restrict the use of the report in certain circumstances.
- The specified procedures report would include required language to appropriately communicate certain key aspects of the engagement.

Issues for Discussion with ASB

Issue #1 - Independence/Objectivity

In the “Objectivity and Independence” section of the AICPA Code of Professional Conduct (ET sec. 0.300.050), *objectivity* and *independence* are differentiated as follows: “Objectivity is a state of mind, a quality that lends value to a member’s services. It is a distinguishing feature of the profession. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free from conflicts of interest. Independence precludes relationships that may appear to impair a member’s objectivity in rendering attestation services.” AICPA independence standards relate only to the performance of attestation services; objectivity standards apply to all services.

With respect to conflicts of interest, the “Conflict of Interest Rule” (ET sec. 1.110.010) states, in part, the following:

A conflict of interest may occur if a member or a member’s firm has a relationship with another person, entity, product, or service that, in the member’s professional judgment, the client or other appropriate parties may view as impairing the member’s objectivity...

A member may perform the professional service if he or she determines that the service can be performed with objectivity because the threats are not significant or can be reduced to an acceptable level through the application of safeguards...

The AICPA’s Statement on Standards for Consulting Services (codified in Professional Standards as CS Section 100) do not require the practitioner to be independent to perform consulting services. However, as stated in the preceding, the practitioner is required to be objective to perform any professional service.

Paragraph .24 of AT-C section 105, *Concepts Common to All Attestation Engagements* states that “the practitioner must be independent when performing an attestation engagement in accordance with the attestation standards unless the practitioner is required by law or regulation to accept the engagement and report on the subject matter or assertion.” Agreed-upon procedures engagements, as well as examination and review engagements, are defined as attestation engagements pursuant to paragraph .10 of AT-C section 105. However, ET section 1.297.020 states, that when performing agreed-upon procedures engagements, the application of the independence rule is modified, as follows (in part):

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When performing an AUP engagement under the SSAEs, *threats* would be at an *acceptable level* and *independence* would not be *impaired*, if the following *covered members* and their *immediate families* are independent of the responsible party(ies):

- a. Individuals participating on the AUP engagement team
- b. Individuals who directly supervise or manage the AUP engagement *partner* or *partner equivalent*
- c. Individuals who consult with the *attest engagement team* regarding technical or industry-related issues specific to the AUP engagement

On the other hand, while a practitioner who performs a compilation engagement in accordance with SSARs is required to consider whether he or she is independent (for reporting purposes), he or she is permitted to perform the engagement when his or her independence is impaired.

A specified procedures engagement resembles a compilation engagement in that both are nonassurance services. The disclosure of independence impairment in the accountant's compilation report allows the user to determine the relevance of any independence impairment and whether such impairment results in decreased reliance on the accountant's report. A majority of the Task Force believes that such reporting would be appropriate in a specified procedures engagement. As an example, a practitioner could be engaged to perform an advisory service relevant to the subject matter which may impair independence. Those Task Force members who believe that independence should not be a precondition to the performance of a specified procedures engagement believe that the performance of the advisory services should not preclude the performance of the specified procedures engagement on the same subject matter. For example, if independence is a reporting requirement as opposed to a performance requirement, not-for-profit board members could appropriately perform the service.

On the other hand, a minority of the Task Force believes that a specified procedures engagement should more closely mirror the requirements with respect to independence for an agreed-upon procedures engagement, specifically that the practitioner would be required to be independent to perform the engagement. Further, those Task Force members believe that it makes little sense to require independence in an agreed-upon procedures report in which the use of the report is restricted to specified parties but not require independence in a specified procedures report which is not restricted as to use and, with respect to which the practitioner may have developed the procedures. Those Task Force members also believe that a proposal to permit the performance of a specified procedures engagement when independence is impaired would not be met favorably by certain regulators and thus inhibit the application of the service.

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Action Requested of the ASB

The ASB is asked to provide feedback to the Task Force as to whether independence should be a precondition for the performance of a specified procedures engagement or if the practitioner should be permitted to perform a specified procedures engagement when his or her independence is impaired but be required to disclose such impairment in the practitioner's specified procedures report.

Issue #2 - Preconditions for the Performance of a Specified Procedures Engagement

Considering that the agreed-upon procedures engagement is well established and accepted by users of practitioner's reports, the Task Force determined that there should be some parameters around when a specified procedures engagement would be performed instead of an agreed-upon procedures engagement.

The Task Force proposes that the standard should not be applicable when the practitioner is aware that the engaging party:

- Plans to engage a practitioner to perform a specified procedures engagement instead of an agreed-upon procedures engagement as required by applicable laws or regulations, contract, or market practices (for example, royalty audits), or
- Has a responsibility, pursuant to applicable laws or regulations, contract, or market practices, to:
 - Conclude that the subject matter is in accordance with the criteria,
 - Measure the subject matter against certain criteria (for example, regulations), or
 - Conduct an engagement addressed by existing agreed-upon procedures guidance.

Action Requested of the ASB

The ASB is asked to provide feedback to the Task Force as to its proposed approach to having certain preconditions for the performance of a specified procedures engagement and whether there are any other preconditions that should be considered for inclusion.

Issue #3 - General Use Reporting

Paragraph .35m of AT-C section 215, *Agreed-Upon Procedures Engagements* requires that the practitioner's agreed-upon procedures report include an alert that restricts the use of the practitioner's report. The restriction is because the agreed-upon procedures engagement was designed for a practitioner to report to "known" (specified) parties who have agreed upon certain procedures for one given purpose. As such, it makes sense to restrict the practitioner's report to the specified parties since other parties may not have the necessary context (for example, they may not have access to underlying contractual agreements or may not have participated in negotiations) and thus would be unable to fully understand or use the report as compared to the specified parties.

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In the case of a specified procedures engagement, since the engaging party is solely taking responsibility for the specified procedures, there is no need to presume a restriction as to the use of the report to a class of user that does not exist. Additionally, the specified procedures are not being developed to meet the stated objective of a known user group (specified parties). The specified procedures engagement would be sought when the engaging party believes that the report would be beneficial to a class of parties, or other interested parties, other than itself (for example, customers) or when the specified parties are unable to agree upon the procedures to be performed because the engagement is not being conducted to meet the specific needs or objectives of one or more parties.

The practitioner would not be precluded from restricting the use of the specified procedures report if the engaging party asks that the report be restricted or if he or she deems appropriate – consistent with the ability to restrict the use of an examination or review report in accordance with the attestation standards.

The Task Force did consider that there may be additional issues that may need to be treated differently with respect to a general use specified procedures report as opposed to the restricted use agreed-upon procedures report including:

- The treatment of personally identifiable information. The specified procedures standard should explicitly prohibit the inclusion of personally identifiable information in the practitioner's report unless the report is restricted to certain specified parties.
- Disclosure of materiality.
- Clarity and precision of the wording of procedures.
- Inclusion of definitions of certain terms.

Action Requested of the ASB

The ASB is asked to provide feedback to the Task Force as to its proposed approach to permit general use specified procedures reports. The ASB is requested to specifically provide feedback as to whether the determination to restrict the use of a practitioner's specified procedures report should be in the spirit of AT section 101 where the determination is primarily a function of the practitioner's professional judgment or whether there should be specific situations in which the practitioner would be required to restrict the use of the specified procedures report. Additionally, the ASB is requested to provide feedback as to whether the practitioner's specified procedures report may be restricted to a class of users (such as customers) as opposed to specified parties.

The ASB is also asked to provide feedback as to whether there are any issues in addition to those identified in the preceding that need to be treated differently in a general use specified procedures report in contrast to a restricted use agreed-upon procedures report.

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Issue #4 - Written Representations

Pursuant to paragraph .28 of AT-C section 215, a practitioner performing an agreed-upon procedures engagement is required to request from the responsible party written representations in the form of a letter addressed to the practitioner. This requirement is not consistent with the pre-clarity standards for an agreed-upon procedures engagement which did not require the practitioner to obtain a representation letter. Instead, paragraph .37 of AT section 201, read as follows:

.37 A practitioner may find a representation letter to be a useful and practical means of obtaining representations from the responsible party. The need for such a letter may depend on the nature of the engagement and the specified parties. For example, paragraph .68 of section 601 requires a practitioner to obtain written representations from the responsible party in an agreed-upon procedures engagement related to compliance with specified requirements.

A practitioner performing a compilation in accordance with SSARs is not required to obtain a representation letter as the ARSC has concluded that a requirement for the accountant to obtain written representations is inconsistent with an engagement in which the accountant is not required to obtain or provide any assurance.

The Task Force considered that the representation letter may be the most appropriate vehicle for the engaging party to acknowledge its responsibility for the sufficiency of the specified procedures. However, the Task Force determined that, while a representation letter may be a useful means for the engaging party to acknowledge that responsibility, such acknowledgment may be obtained in a number of ways – including the engagement letter, the presentation of the subject matter (such as in the notes thereto), or in some other written format. Therefore, the representation letter would not be a necessity to the obtaining of the engaging party's acknowledgment.

The Task Force believes, consistent with the pre-clarified agreed-upon procedures standard, the specified procedures standard should not require the practitioner to obtain a representation letter but instead should state that the practitioner may find a representation letter useful in certain circumstances. Because no assertion is required to be requested or obtained in the proposed specified procedures engagement, the Task Force believes that the omission of such a requirement would not result in an inconsistency with AT-C section 215.

Action Requested of the ASB

The ASB is asked to provide feedback to the Task Force regarding the Task Force's proposal to not require a representation letter in a specified procedures engagement.

Issue #5 - Report Differences from AUP Reports

The specified procedures standard is drafted assuming that there would be additional language, compared to agreed-upon procedures, in the report in order to appropriately

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communicate certain key aspects of the engagement. Including language alerting the users as to the limitations of the engagement. The Task Force developed the following to illustrate how a report may alert users as to the limitations of the engagement:

The procedures above were limited to observing or comparing certain information that is further described in Attachment B. XYZ Company is responsible for the Source Documents and the determination of the instructions that are described herein. We were not requested to perform and we have not performed any procedures other than those listed above with respect to the preparation or verification of any of the information here within. We have not verified, and we make no representation as to, the accuracy, completeness or reasonableness of the Source Documents or any other information provided to us by XYZ Company, upon which we relied in forming our findings. Accordingly, we make no representation and express no opinion as to (a) questions of legal or tax interpretation and (b) the accuracy, completeness or reasonableness of any instructions, assumptions and methodologies provided to us by or on behalf of the State of _____ that are described in this report.

Furthermore, we undertake no responsibility to update this report for events and circumstances occurring after the date hereof. We did not obtain a written statement from XYZ Company stating that the [Engagement] was conducted in accordance with its procedures.

In addition, the proposed report would preclude the inclusion of practitioner recommendations.

The Task Force also considered whether, due to

- a. the fact that users are not required to be involved in the development of the procedures in a specified procedures engagement and thus will be considering the procedures performed and the related findings for the first time when reading the practitioner's report and
- b. the potential fluidity of the procedures to be performed

there should be a requirement to disclose, in the practitioner's report, all findings associated with procedures performed – even if those procedures may have subsequently changed. The Task Force is concerned about reports being misleading if the procedures are changed in order to reach different findings. In addition, such a requirement would be consistent with paragraph .26 of AT-C section 215 which reads as follows:

.26 The practitioner should report all findings from application of the agreed-upon procedures. Any agreed-upon materiality limits should be described in the practitioner's report.

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Action Requested of the ASB

The ASB is asked to provide feedback to the Task Force on the preceding illustrative reporting example and regarding the Task Force's approach of specifying requirements, for certain situations, to include certain language in the report in order to appropriately communicate certain key aspects of the engagement.

In addition, the ASB is asked to provide feedback as to whether all findings, including those performed in accordance with procedures that are subsequently changed, should be reported in the practitioner's specified procedures report.

Issue #6 - SSARS vs. SSAE

In developing the proposed standard, the Task Force did not limit the development so as to fit into any particular set of standards instead focusing on developing a service that meets a market demand. As such, certain elements of the proposed standard more closely resemble an engagement in accordance with SSARSs (independence requirements, no assertion required) while other elements more closely resemble an engagement performed in accordance with the SSAEs (subject matter).

The Task Force recommends that the decision as to whether the standard is issued as a SSARS or an SSAE be made after the ARSC and the ASB agree upon the other issues contained within this discussion memorandum as the answer may become evident based upon the settlement of the issues. The bottom line for the Task Force is the development of a standard that meets the needs of the market and is not saddled with requirements based on where it is codified in the professional literature.

If it is determined that the standard should be issued as a SSARS, certain requirements contained within the SSAEs may have to be added to the proposed standard. For example, paragraph .02 of AT-C section 105 includes a statement that "an attestation engagement is predicated on the concept that a party other than the practitioner makes an assertion about whether the subject matter is evaluated in accordance with suitable criteria." If the standard is issued as an SSAE, the Task Force will propose a revision to paragraph.02 so that the specified procedures standard fits the definition of an attestation engagement. The Task Force will also propose to revise paragraph.10 of AT-C section 105 to include *specified procedures* as a type of attestation engagement. Additionally, depending on the direction the ARSC and ASB determine with respect to the independence issue, paragraph.24 of AT-C section 105 may have to be revised to permit the performance of an attestation engagement when the accountant's independence is impaired. Additional revisions to AT-C section 105 may be necessary.

Action Requested of the ASB

The ASB is asked to provide very preliminary feedback to the Task Force as to whether the standard should be issued as a SSARS or as an SSAE.

Proposed Time Table

The Task Force developed the following proposed timetable in an attempt to have the proposed standard issued as close as possible to the effective date of the clarified agreed-upon procedures standard, which is effective for agreed-upon procedures reports dated on or after May 1, 2017.

- May 2016 – ARSC and ASB to consider issues related to the proposed standard and provide the Task Force with feedback.
- August 2016 – Draft standard presented to ARSC and ASB.
- October/November 2016 – Revised draft to ARSC and ASB – consideration of vote to expose for public comment.
- May 2017 – Consideration of comment letters on exposure draft.
- July 2017 – Consider to issue as a final standard. The Task Force proposed that the standard be effective upon issuance.

Agenda Items Presented:

None

Note that the agenda materials for the May 17-19, 2016 ARSC meeting include a draft proposed standard. The ASB agenda materials do not include the draft given the agenda time allotted to the subject. The Task Force prefers that the ASB members focus on the substantive issues at this point.