



Agenda Item 4

Non-Assertion Based Attestation Engagements Discussion Memo

Objective of Agenda Item

To discuss with the ASB, drafts of the following proposed attestation standards:

- A proposed revision of AT-C section 105, *Concepts Common to All Attestation Engagements*, to make it applicable to both assertion-based and non-assertion based engagements
- A proposed attestation standard that addresses non-assertion based examination and review engagements (proposed AT-C section 501, *Non-Assertion Based Examination and Review Attestation Engagements*)
- A proposed attestation standard that addresses selected procedures engagements (proposed AT-C section 601, *Selected Procedures*)

Background

Separate task forces were formed to consider the development of non-assertion based attestation standards. The Direct Engagements Task Force was formed to assist in developing a section of the attestation standards that would enable practitioners to perform examination and review engagements without having to obtain an assertion from the responsible party. The ASB asked that the Canadian Standard on Assurance Engagements (CSAE) 3001, *Direct Engagements*, serve as the base for the proposed AT-C section.

The Selected Procedures Task Force was formed to assist in developing a standard that would enable a CPA to perform procedures and report on the results of those procedures – without being required to request or obtain an assertion from the responsible party or restrict the use of the report. The Selected Procedures project is a joint effort of the ARSC and the ASB. The Task Force presented certain issues and drafts of the proposed AT-C section to the ASB at its meetings in May (issues only), August, and November 2016 and January 2017.

The Direct Engagements Task Force consists of the following members:

Cathy Schweigel (Task Force Chair) – Member of the ASB
Marne Doman – PricewaterhouseCoopers LLP
James Gould – KPMG LLP

Vicki Hellenbrand – Baker Tilly Virchow Krause
Andy Mintzer – Hemming Morse LLP
Dan Montgomery – Member of the ASB
Rick Reisig – Member of the ASB
Daniel Sanders – DHG

The Direct Engagements Task Force is staffed by Judith Sherinsky.

The Selected 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 ARSC
Michael Manspeaker – Member of the AICPA’s Technical Issues Committee
Paul Penler – Ernst & Young LLP
Chad Singletary – Member of the ASB

The Selected Procedures Task Force is staffed by Mike Glynn.

The chairs of the ARSC and ASB (Mike Fleming and Mike Santay, respectively) have observer rights to the meetings of both task forces, and the chair of each task force has observer rights to the meetings of the other task force. Chuck Landes has also been closely involved in these projects.

Presentation to the ASB

The issues associated with the proposed AT-C sections are outlined below as issues 1–7 and the drafts of the three proposed AT-C sections are included as Agenda Items 4-A – 4C. In addition, a draft of the proposed selected procedures AT-C section that highlights edits made to the draft presented at the January 2017 ASB meeting is included as Agenda Item 4D. Also included are CSAE 3001 (Agenda Item 4-E) and a mapping document (Agenda Item 4-F) that maps CSAE 3001 to either the proposed common concepts AT-C section or the proposed examination and review AT-C section.

Issues for Discussion with the ASB

Issue 1: One Common Concepts Section

At their separate meetings in January 2017, both the ARSC and the ASB directed that a common concepts AT-C section for non-assertion based attestation standards be developed. This would be a stand-alone common concepts section that covers common concepts for non-assertion based examination and review engagements as well as selected procedures engagements. The section would use AT-C section 105 as a base.

However, once staff began drafting the common concepts section, it was noted that the proposed section was substantially the same as AT-C section 105. Therefore, it was determined that AT-C section 105 should be revised to cover both assertion-based and non-assertion based attestation standards. Staff envisions that the assertion-based standards will retain their codifications in AT-C sections 200-300. The non-assertion based standards would be codified as AT-C sections 501 (examinations/reviews) and 601 (selected procedures). Whether a CPA performs an assertion-based or non-assertion based engagement would be a market decision. The draft of the proposed revisions to AT-C section 105 is presented as Agenda Item 4A.

Action Requested of the ASB

Does the ASB agree with the approach to revise AT-C section 105 so that it applies to both assertion-based and non-assertion based attestation engagements?

Issue 2: Guidance for Determining When to Use the Assertion-Based or Non-Assertion Based AT-C Section

Proposed AT-C sections 501 and 601 are engagement driven which means that they would be applicable when a practitioner is engaged to issue, or does issue a practitioner's examination, review, or selected procedures report, without requesting or obtaining an assertion. Like CSAE 3001, these proposed AT-C sections do not include a "framework" for determining when a practitioner should use the assertion-based AT-C section or the non-assertion based AT-C section. Rather, the decision would be a market place decision involving the practitioner, the engaging party, and whether there is a requirement or an expectation that the responsible party provide an assertion. If an assertion is expected or required, the practitioner would be engaged under the assertion-based AT-C section. If an assertion is not expected or required, the practitioner could be engaged under the non-assertion based AT-C section.

Further, an issue may arise when a practitioner is engaged to perform an assertion-based engagement but is unable to obtain an assertion from the responsible party. As currently drafted, the proposed AT-C sections do not prohibit a practitioner from using his or her judgment to restructure the engagement from an assertion-based to a non-assertion based engagement.

Action Requested of the ASB

Does the ASB agree with the current proposal to allow the CPA to use professional judgement in deciding whether to perform the engagement under the assertion-based AT-C section or the non-assertion section? If no, be prepared to describe what restrictions you would like to see and why.

Further, does the ASB believe that it should not prohibit or preclude a practitioner from restructuring an engagement with his or her client from an assertion-based engagement to a non-assertion based engagement or vice versa? If no, what prohibitions or restrictions would you like to see and why?

Issue 3: Precluding Non-Assertion Based Engagements on Certain Subject Matter

With respect to review engagements, proposed AT-C section 501 prohibits a practitioner from reviewing the same subject matters as those prohibited by AT-C section 210, *Review Engagements*,

(prospective financial information, internal control, or compliance with requirements of specified laws, regulations, rules, contracts, or grants).

Action Requested of the ASB

Does the ASB agree that the same preclusions should apply to the non-assertion based review section? Are there any other subject matters that should be precluded and why?

Issue 4: Requirements for Assertion-Based Engagements and Non-Assertion Based Engagements.

Because the level of assurance for a non-assertion based examination or review engagement is the same as it is for an assertion-based examination or review engagement, we have attempted to pick up the same requirements in the non-assertion based AT-C sections as we have in the assertion-based sections. However, because CSAE 3001 serves as the base for proposed AT-C section 501, it sometimes uses slightly different words for similar requirements.

Actions Requested of the ASB

Does the ASB agree that proposed non-assertion based AT-C section 501 contains essentially the same requirements as those included in the assertion-based AT-C section? If not, what requirements do you believe are missing and why?

Issue 5: Illustrative Reports

Proposed AT-C section 501, like CSAE 3001, identifies the required elements of a practitioner's examination and review report but does not provide any illustrative reports. In addition, paragraph A67 of proposed AT-C section 501, like paragraph A160 of CSAE 3001, provides for *long-form reports* which are described in paragraph A67 as follows:

"Long-form reports" include other information and explanations that are not intended to affect the practitioner's opinion or conclusion. In addition to the basic elements, long-form reports may describe in detail the terms of the engagement, the applicable criteria being used, findings relating to particular aspects of the engagement, details of the qualifications and experience of the practitioner and others involved with the engagement and, in some cases, recommendations. The practitioner may find it helpful to consider the importance of providing such information to the information needs of the intended users. As required by paragraph 37, additional information is clearly separated from the practitioner's conclusion and phrased in such a manner so as make it clear that it is not intended to detract from that conclusion.

Because an engagement performed under proposed AT-C section 501 could apply to many different types of subject matters, any illustrative reports would be boiler plate reports that meet the minimum requirements and therefore may be of little value. Long form reports would need to be tailored to the subject matter and the procedures and findings of that specific engagement.

Action Requested of the ASB

What are the ASB members' views on providing illustrative reports?

Issues Associated With the Proposed Selected Procedures Standard

Issue 6: Responsibility for the sufficiency of the procedures performed

At its meeting in January 2017, the ASB directed that the proposed AT-C section 601 include a clear requirement for the practitioner to make the engaging party aware of the procedures performed, prior to issuing the selected procedures report. Such acknowledgment does not constitute the engaging party taking responsibility for the sufficiency of the procedures performed.

The Task Force determined to include a requirement that, as part of agreeing upon the terms of the engagement with the engaging party, the practitioner should obtain the engaging party's acknowledgment that it is responsible for providing the practitioner with, prior to the conclusion of the engagement, a written acknowledgment regarding the engaging party's understanding of the procedures performed. That requirement is included in the proposed AT-C section as paragraph .7e(iv)1.

The requirement that, prior to the issuance of the selected procedures report, the practitioner obtain a written acknowledgment from the engaging party regarding their understanding of the procedures performed is included in the proposed AT-C section as paragraph .14.

Action Requested of the ASB

The ASB is asked to consider whether it agrees with how the Task Force addressed the ASB's directive that the AT-C section include a clear requirement that the practitioner, prior to issuing the selected procedures report, make the engaging party aware of the procedures performed

Issue 7: Reporting

At its meeting in January 2017, the ASB directed that a requirement be added to the proposed AT-C section for the practitioner to consider, prior to issuance, whether the procedures and associated findings result in a misleading report. The ASB further directed that the report be "positive" and describe what a selected procedures engagement provides as opposed to what it does not. The ASB also directed that additional illustrative reports be presented including illustrative reports that include reported findings.

The Task Force included the following as paragraphs .24 and .A34 of the proposed AT-C section:

- .24** The practitioner should consider whether the procedures and related findings result in a misleading selected procedures report. If, as a result of performing procedures, the practitioner determines that the description of the procedures performed or the corresponding findings result in a misleading selected procedures report, the practitioner should discuss the matter with the engaging party and take appropriate action. (Ref: par. X.A34)
- .A34** Appropriate actions the practitioner might consider in the circumstances described in paragraph .24 include

- a. performing revised procedures;
- b. omitting a finding from the practitioner’s selected procedures report; or
- c. withdrawing from the engagement.

Action Requested of the ASB

The ASB is asked to consider whether it agrees with how the Task Force addressed the ASB’s directive that the standard include a requirement for the practitioner to consider, prior to issuance, whether the procedures and associated findings result in a misleading report.

The Task Force developed 6 separate illustrative reports. The illustrative reports are presented in a “plug and play” format to show how the reports could be standardized and then modified to fit specific engagements. The following illustrations are presented in the draft AT-C section:

- **Illustration 1** – Basic “Shell” Report
- **Illustration 2**—Selected Procedures Report Related to a Lottery Drawing
- **Illustration 3**— Selected Procedures Report Related to Sustainability
- **Illustration 4**— Selected Procedures Report Related to a Union Election
- **Illustration 5**— Selected Procedures Report Related to Internal Control
- **Illustration 6**— Selected Procedures Report Related to a Financial Statement Element

Action Requested of the ASB

The ASB is asked to provide feedback with respect to the illustrative reports presented.

Next Steps

The following represents the proposed timetable for future presentations to the ASB and ultimate issuance of the proposed non-assertion based standards:

- July 2017 – Revised drafts of the proposed AT-C section containing revisions to AT-C section 105, the non-assertion based examination and review section, and the selected procedures section will be presented to the ASB. The ASB will be asked to consider voting to expose the proposed standards for public comment.
- January 2018 – The ASB will consider comment letters received on the exposure drafts of the proposed standards and revisions made by the Task Forces to the proposed standards as a result of the comment letters received.
- May 2018 – The ASB will be asked to consider voting to issue the proposed standards as final.

Agenda Items Presented

- Agenda item 4A: Proposed AT-C section 105, as amended
- Agenda item 4B: Proposed AT-C section 501, *Non-Assertion Based Examination and Review Attestation Engagements*
- Agenda item 4C: Proposed AT-C section 601, *Selected Procedures* - clean
- Agenda item 4D: Proposed AT-C section 601, *Selected Procedures* – redline to show revisions to clean document presented to the ASB at its meeting in January 2017
- Agenda item 4E: CSAE 3001, *Direct Engagements*
- Agenda item 4F: A mapping document that shows how the introductory and requirement paragraphs in CSAE 3001 have been addressed in either the amended common concepts AT-C section or in proposed AT-C section 501.