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Mr. Mike Glynn
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Proposed Statement on Standards for Attestation Engagements, *Selected Procedures*

Dear Mr. Glynn,

Ernst & Young LLP is pleased to submit this comment letter to the American Institute of Certified Public Accountants (AICPA) in response to the request for comment from the Accounting Review Services Committee (ARSC) on its proposed Statement on Standards for Attestation Engagements, *Selected Procedures*. We support the AICPA's proposal of a new type of attestation service that would provide more opportunities for companies to enhance the value of reports they provide to customers, employees, suppliers and other stakeholders. We believe there is significant market demand for this type of service.

Today, when all of the conditions of an agreed-upon procedures (AUP) engagement are not able to be met, companies often engage a provider who is not a certified public accountant (CPA) to perform the service, or they engage the CPA to perform another type of service (e.g., a consulting engagement that restricts the use of the report to the engaging party, an examination engagement that is more extensive and costly).

However, we believe any final standard issued by the AICPA should include additional requirements and application guidance to protect report users.

Responsibility for subject matter

We believe any final standard should require that the practitioner's report identify the party or parties responsible for the subject matter when the engaging party is able to make that determination. If the engaging party is unable to determine the party or parties responsible for the subject matter, we believe the final standard should require that a statement to that effect be included in the practitioner's report. These statements make it clear that the practitioner is not responsible for the subject matter.

If the report doesn't clarify that someone other than the practitioner is responsible for the subject matter, we are concerned that the practitioner may be viewed as being the responsible party, which could call into question his or her independence related to the selected procedures engagement and potentially the financial statement audit if the practitioner is also the auditor of the engaging party's financial statements. In addition, we believe such disclosure would reduce the risk of misleading users of the report who would likely presume that the engaging party is responsible for the subject matter.

In addition, if the engaging party is unable to identify the party or parties responsible for the subject matter, we believe any final standard should require the practitioner's report to include cautionary language for the user to consider this fact when determining how to use the findings and how much reliance to place on them.

Appropriateness of the procedures for the intended purpose

We agree with the proposal that no party should be required to take responsibility for the sufficiency of the procedures, which is required in an AUP engagement. However, we believe someone other than the practitioner should determine whether the selected procedures are appropriate for the intended purpose of the engagement. We believe this is particularly important when a general-use report is expected to be issued, since this would be a reasonable expectation of users who may not be able to make this assessment. Therefore, when no party has determined that the selected procedures are appropriate for the intended purpose of the engagement, we believe the practitioner should restrict the use of the report.

Incorporating into AT-C 215 vs. a separate standard

We recommend that the AICPA issue a separate attestation standard, as ARSC proposed. We believe that modifying the AUP standard might confuse practitioners and users about the provisions of AT-C section 215, *Agreed-Upon Procedures Engagements*, which has been effective for only a short period of time. Making significant changes to an attestation standard that was effective earlier this year would not seem appropriate, and we recommend that the AICPA conduct a post-implementation review before considering any changes to AT-C section 215.

In addition, if the AUP standard were modified to incorporate the selected procedures concepts, we believe the meaning of an AUP may change, which could be contrary to the intent of many established contracts and regulations that require an attestation engagement performed in accordance with AT-C section 215.

Additional representations to provide appropriate safeguards to report users

We recommend that, to protect users of reports about "sensitive" subject matters (i.e., subjects addressed in the AT-C 300 series, internal controls, cybersecurity risk management programs and information related to the sale of securities), the final standard should allow the practitioner to issue the report for general use only if the practitioner obtains a representation from the party responsible for the subject matter that the subject matter is in accordance with the criteria and that the party has a reasonable basis to make that statement. We also believe that, if the party responsible for the subject matter refuses to provide this representation, the practitioner should be required to restrict the use of the report and disclose in the report the responsible party's refusal to provide the representation.

For all other subject matters, we believe the engaging party should provide a representation that it has disclosed to the practitioner any reservations about whether the subject matter is in accordance with the criteria, in all material respects. If the engaging party refuses to provide this representation, we believe the practitioner should consider restricting the use of the report and/or disclosing in the report the engaging party's refusal to provide the representation.



These recommendations and others are discussed further in Attachment A, along with our responses to the AICPA's questions in the Explanatory Memorandum. We would be pleased to discuss our comments with members of the ARSC and the Auditing Standards Board.

Yours sincerely

Ernst & Young LLP

Responses to questions in the Explanatory Memorandum

1A: Is the proposed expansion of the practitioner's ability to perform procedures and report in a procedures and findings format beyond that currently provided by AT-C section 215 needed and in the public interest? If so, provide specific examples of when, in practice, a practitioner may perform an engagement in accordance with the proposed standard.

Overall, we support the creation of a new attestation service that we believe would allow companies to enhance the value of communications provided to customers, employees, suppliers and other stakeholders. We believe that with appropriate safeguards for users, the new service would be in the public's interest and could expand the value CPAs bring to the market.

We also believe there is significant market demand for this type of service. Today, when all of the conditions of an AUP engagement are not able to be met, companies often engage a non-CPA service provider to perform the service, or they engage the practitioner to perform another type of service (e.g., a consulting engagement that restricts the use of the report to the engaging party, an examination engagement that is more extensive and costly).

In proposing the new service, the AICPA is responding to requests that CPAs have received from companies that want CPAs to enhance their communications to various stakeholders in situations that go beyond what is permitted for an AUP engagement. For example, the use of AUP reports is restricted to specified parties that agree to the procedures and provide acknowledgement of the sufficiency of the procedures for their purposes. The proposal does not contain such a requirement and would allow a report on selected procedures to be used by anyone (i.e., general use) or by a broad number of users (i.e., a class of users such as customers or employees) for potentially different purposes. We believe some examples of when a practitioner might perform a selected procedures engagement include:

- ▶ A company wants a report that it can distribute to a large number of stakeholders, but it is not practical to obtain the stakeholders' agreement on the procedures or for the stakeholders to communicate that the procedures are sufficient for their purposes (e.g., a servicer organization wants procedures performed over their controls in order for their user entities to have additional information to assess their reliance on controls for the period between the end of an examination report and the end of the calendar year end).
- ▶ A company wants a practitioner to observe and issue a general use report on findings of procedures about the company's process of developing information (e.g., observing and reporting on the selection of the winner of a lottery drawing, a union election or a competitive bid).
- ▶ A company wants a practitioner to perform procedures to assist stakeholders in evaluating the progress the company, or a company's supplier, has made on a given initiative prior to the company making the evaluation (e.g., a company wants a practitioner to perform procedures to assist users in evaluating whether the company's environmental impact disclosures are in accordance with the Global Reporting Initiative Guidelines, prior to the company making such an evaluation).

- ▶ A company wants a practitioner to perform procedures to help it assess whether information another party is responsible for is in accordance with certain criteria, if the responsible party won't make such an assertion or hasn't selected specific criteria (e.g., procedures to assess whether a supplier is following market-recognized privacy policies).
- ▶ A company wants a practitioner to perform procedures that cannot be developed prior to the engagement agreement being executed (e.g., the procedures depend on developments that occur after the practitioner is engaged).

1B: Please provide feedback about whether you believe the proposed standard appropriately addresses the objective of providing flexibility regarding the development of the procedures to be performed by the practitioner and the nature and extent of the responsibilities of the parties to the engagement.

We believe the proposed standard would provide appropriate flexibility regarding the development of the procedures to be performed by the practitioner.

However, see our response to question 1D.c. for our views regarding the identification of the party or parties responsible for the subject matter in the practitioner's report.

1C: Do you agree with the proposal that no party would be required to take responsibility for the sufficiency of the procedures in a selected procedures engagement?

We agree with the proposal that no party would be required to take responsibility for the sufficiency of the procedures in a selected procedures engagement. Because a selected procedures report may be used by different users (e.g., suppliers, customers, regulators) for different purposes, each user would need to determine whether, and to what extent, the procedures are sufficient for their given purpose.

However, we believe that someone other than the practitioner should determine that the selected procedures are appropriate for the intended purpose of the engagement, even if the practitioner or another party developed the selected procedures, and that party should be identified in the practitioner's report. Note that this differs from a party taking responsibility for the sufficiency of the procedures. We believe this is particularly important when a general-use report is expected to be issued, since users would reasonably expect a party other than the practitioner to determine that the procedures are appropriate for the intended purpose and they may not be in a position to make such an assessment. In most cases, we would expect the engaging party to determine that the selected procedures are appropriate for the intended purpose of the engagement. Further, we believe this requirement would be consistent with the other attestation standards that require a party to take responsibility for the procedures performed.

As indicated in our response to question 2A below, when no party determines that the selected procedures are appropriate for the intended purpose of the engagement, we believe the practitioner should restrict the use of the report.

1D: Related to Specific Request for Comment 1C, consider and provide feedback about whether you believe the proposed reporting requirements appropriately communicate the following:

a. When no party takes responsibility for the sufficiency of the procedures

We agree that no party should be required to take responsibility for the sufficiency of the procedures and believe the proposed reporting requirements appropriately communicate that fact, when applicable. However, as indicated in our response to question 1C, we believe a party other than the practitioner should be required to determine that the selected procedures are appropriate for the intended purpose of the engagement and that party should be identified in the practitioner's report.

b. When the practitioner, the engaging party, another party, or a combination of these parties take responsibility for the sufficiency of the procedures

When the engaging party, another party or a combination of these parties (other than the practitioner) chooses to take responsibility for the sufficiency of the procedures, we believe the proposed reporting requirements would be appropriate.

However, we don't believe it would be appropriate for the practitioner to take responsibility for the sufficiency of the procedures because this could result in the practitioner providing a conclusion that the procedures are appropriate for the user's purpose, which would be inconsistent with an engagement where no assurance is obtained. In addition, the practitioner would be assuming the risk that the procedures might be insufficient. While the proposed service is separate and distinct from an AUP engagement, paragraph A6 of AT-C section 215 states that the party "responsible for the sufficiency (nature, timing, and extent) of the agreed-upon procedures ... assumes the risk that such procedures might be insufficient." We recommend clarifying in any final standard that the practitioner cannot take responsibility for the sufficiency of the procedures.

c. The responsibilities (or lack thereof) of the practitioner, engaging party, and the party responsible for the subject matter

Paragraph 53.d of the proposed standard indicates that the practitioner's report should include "a statement that the engaging party is responsible for the selection of the subject matter and, if applicable, an identification of the party, for purposes of the engagement that has taken responsibility for the subject matter". It's unclear to us whether the proposed standard would require the practitioner's report to identify the party or parties responsible for the subject matter.

We believe any final standard should require that the practitioner's report identify the party or parties (other than the practitioner) responsible for the subject matter when the engaging party is able to make that determination. We believe it would be appropriate for the engaging party to make this determination because the engaging party is required to identify the party or parties responsible for the subject matter in the engagement agreement. We do not believe it would be appropriate for the practitioner to make this determination because the practitioner may not have any interaction with the party responsible for the subject matter.

Further, if the engaging party is unable to determine the party or parties responsible for the subject matter, we believe any final standard should require a statement to that effect in the practitioner's report. In this situation, we also believe any final standard should require the practitioner's report to include (1) cautionary language for the user to consider this fact when determining how to use the findings and how much reliance to place on them and (2) an alert that restricts the use of the report.

We believe these requirements would reduce the risk of misleading users of the report, who would likely presume that the engaging party is responsible for the subject matter.

Moreover, we are concerned that, if the report doesn't clarify that someone other than the practitioner is responsible for the subject matter, the practitioner may be viewed as being the responsible party, which could call into question his or her independence for the selected procedures engagement or for the audit when the practitioner is the financial statement auditor of an engaging party and subject to SEC rules.

d. The limitations of the engagement

We believe the proposed application guidance in paragraph A95 should be expanded to include the following examples:

- ▶ Clarification that the practitioner did not perform any procedures to validate the documents used in the execution of the selected procedures
- ▶ When the practitioner restricts the use of the report, disclosure that the practitioner's report is not intended for use by specified parties that may have access to the report as required by law or regulation

2A: Do you agree with the permission of general-use selected procedures reports? If you don't agree, please explain why.

We agree with the proposal to permit general-use selected procedures reports. However, we believe the practitioner should restrict the use of the report when (1) no party determines that the selected procedures are appropriate for the intended purpose of the engagement (see our response to question 1C), (2) the engaging party is unable to determine the party or parties responsible for the subject matter (see our response to question 1D.c) or (3) the subject matter is "sensitive" and the party responsible for the subject matter refuses to provide a representation that the subject matter is in accordance with the criteria and the party has a reasonable basis to make that statement (see our response to question 3A).

In addition, for subject matter that is not "sensitive," we believe that, when the engaging party refuses to provide the representation that it has disclosed to the practitioner any reservations it has about whether the subject matter is in accordance with the criteria, in all material respects, the practitioner should consider restricting the use of the report and/or disclosing in the report the engaging party's refusal to provide the representation. We recommend adding this example to the proposed application guidance.

Practically, we believe many selected procedures reports would include a restriction to a specified class of users because users would not be presumed to have an adequate understanding of the criteria.¹ Therefore, it would be inappropriate for the general public to have access to a selected procedures report if the users do not understand the criteria. This would align with the requirements for attestation examinations and reviews.

2B: If general-use selected procedures reports are permitted, should additional language be included in the practitioner's selected procedures report such as disclosure of the party or parties that determined the procedures to be performed by the practitioner?

As indicated in our response to question 1C, we believe the practitioner's report should include a statement identifying the party who has determined that the selected procedures are appropriate for the intended purpose of the engagement. As indicated in our response to question 2A, if no party determines that the selected procedures are appropriate for the intended purpose of the engagement then the practitioner should restrict the use of the report.

3A: Do you agree that the practitioner should not be required to request or obtain a written assertion from the responsible party in a selected procedures engagement?

We recommend that, to protect users of reports about "sensitive" subject matters (i.e., subjects addressed in the AT-C 300 series, internal controls, cybersecurity risk management programs and information related to the sale of securities²), the final standard should allow the practitioner to issue the report for general use only if the practitioner obtains a representation from the party responsible for the subject matter that the subject matter is in accordance with the criteria and the party has a reasonable basis to make that statement. We believe this representation is necessary because users of the selected procedures report would presume that a party, other than the practitioner, has assessed whether the subject matter is in accordance with the criteria (e.g., compliance with laws or regulations). We also believe that, if the party responsible for the subject matter refuses to provide this representation, the practitioner should be required to restrict the use of the report and disclose in the report the responsible party's refusal to provide the representation.

For all other subject matters, we believe the engaging party should provide a representation that it has disclosed to the practitioner any reservations about whether the subject matter is in accordance with the criteria, in all material respects. If the engaging party refuses to provide this representation, we believe the practitioner should consider restricting the use of the report and/or disclosing in the report the engaging party's refusal to provide the representation.

¹ Paragraph A38 of the proposal states, "Some criteria may be suitable for only a limited number of parties who either participated in their establishment or can be presumed to have an adequate understanding of the criteria."

² Examples may include an engagement to perform selected procedures similar to Statement of Position 17-1 Performing Agreed-Upon Procedures Related to Rated Exchange Act Asset-Backed Securities Third-Party Due Diligence Services as Defined by SEC Release No. 34-72936 securities, or an engagement to perform selected procedures in connection with the sale of equity securities.

3B: In addition to those representations required by the proposed standard and in the absence of requiring that the responsible party provide a written assertion, are there any other written representations that the practitioner should be required to request in a selected procedures engagement? If so, please provide specific representations that the practitioner should be required to request.

We agree with the representations the proposed standard would require. However, we recommend that the following representations also be required:

- ▶ When applicable, a representation that the engaging party has taken responsibility that the selected procedures are appropriate for the intended purpose of the engagement (see our response to question 1C)
- ▶ A representation that the engaging party has disclosed to the practitioner any reservations about whether the subject matter is in accordance with the criteria, in all material respects (see our response to question 3A)
- ▶ A representation from the party responsible for the subject matter when the subject matter is a “sensitive” subject matter (i.e., those subject matters within the AT-C 300 series, internal controls, cybersecurity risk management programs and information related to the sale of securities) that the subject matter is in accordance with the criteria and the party has a reasonable basis to make that statement (see our response to question 3A)
- ▶ A representation that the engaging party is not aware of any instances of alleged fraud or noncompliance with laws; such a representation is important because the practitioner’s report could be a general-use report
- ▶ A representation acknowledging materiality thresholds used in the reporting of findings if the materiality thresholds are not included in the signed engagement agreement or have been modified subsequent to the signed engagement agreement

4A: Do you agree that the proposed standard should be market driven, or are there instances in which a practitioner should be precluded from performing a selected procedures engagement? If there are instances in which the practitioner should be precluded from performing a selected procedures engagement, please provide specific instances and the reasons why.

We agree that the proposed standard should provide flexibility for practitioners to meet a company’s need while serving the public’s interest. Therefore, we believe the market-driven approach is appropriate as long as the standard provides sufficient guidance to safeguard users. However, as discussed in our response to question 3A, we believe that certain additional representations should be requested for certain sensitive subject matters.

4B: Do you believe the proposed standard should be included in the professional literature (a) as revisions to AT-C section 215 (resulting in the agreed-upon procedures and selected procedures requirements and guidance being codified together) or (b) as a stand-alone AT-C section (for example, AT-C section 220)? Please provide reasoning for your preference.

We recommend that, consistent with the exposure draft, the proposed standard be included in the professional literature as a standalone AT-C section to avoid confusing practitioners and users about the provisions of AT-C section 215. Making significant changes to an attestation standard that was just effective earlier this year would not seem appropriate, and we recommend that the AICPA conduct a post-implementation review before considering any changes to AT-C section 215.

Additionally, if the AUP standard were modified to incorporate the selected procedures concepts, we believe the meaning of an AUP may change, which could be contrary to the intent of many established contracts and regulations that require an attestation engagement performed in accordance with AT-C section 215. For example, if the requirement for the responsible party having a reasonable basis for measuring or evaluating the subject matter is removed, users may incorrectly assume that the responsible party made an evaluation of the subject matter (e.g., whether the company evaluated compliance with specified requirements itself) when in fact it did not.

Moreover, including the requirements for a selected procedures engagement in AT-C section 215 would make the proposed service less visible than if it were established in a standalone standard, and the AICPA would miss an opportunity to call attention to the benefits to companies of using these reports. For these reasons and others, we don't support revising AT-C section 215 to incorporate the requirements of the proposed service.

Additional recommendations

In some situations, it is the intent of the engaging party to attach other information to the practitioner's report or include the practitioner's report in other information that is not subjected to the selected procedures. If such a determination is made prior to issuing the practitioner's report, we believe it is in the public's interest (especially when the report is general use) for the standard to require the practitioner to read the other information to identify material inconsistencies with the practitioner's report. If the practitioner identifies a material inconsistency, the practitioner should be required to discuss the matter with the engaging party. Additionally, the practitioner's report should state that no procedures were performed on the other information so as to reduce the risk that a user of the report may inappropriately infer otherwise.