



December 1, 2017

Mr. Mike Glynn
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Proposed Statement on Standards for Attestation Engagements, *Selected Procedures*

Dear Mr. Glynn:

We appreciate the opportunity to comment on the Proposed Statement on Standards for Attestation Engagements, *Selected Procedures* (the “proposed SSAE”). We are supportive of the ARSC and the ASB taking steps to set out an appropriate framework within the ASB’s attestation standards for practitioners to provide services that are relevant and appropriate in the public interest.

In our view, the genesis of the current initiative to develop a standard addressing selected procedures relates to concerns over the potential limitations of, and practical challenges with, AT-C section 215, *Agreed-Upon Procedures Engagements* (“AUP engagements”). For example, in practice there is currently demand in some circumstances for an AUP report to be made available to third parties who have not agreed to the sufficiency of the procedures for their purposes (e.g., regulators, funding agencies, ratings agencies). In addition, specified parties in an AUP engagement often request that the practitioner assist in developing the procedures and can benefit from the practitioner’s expertise in deciding how best to achieve the intended purpose for which the practitioner is engaged. Finally, the pre-clarity attestation standards did not require a written assertion; the assertion was generally considered as implicit in describing the character of the engagement or in the detailed procedures. Accordingly, the change to AT-C section 215 to require the practitioner to request an assertion has been highlighted as a difficulty in practice in certain circumstances.

We are therefore supportive of exploring how the attestation standards could evolve to overcome these challenges and enable practitioners to provide services when there is market demand for them. We believe there could be benefit in enabling companies to engage practitioners to more widely report on procedures and findings with respect to particular subject matters, for example in relation to the company’s adherence to specific regulatory requirements, other compliance reporting, or in response to current market concerns.

However, we believe as currently drafted the new standard will cause confusion in the marketplace to users of AUP and selected procedures reports, as well as for practitioners in determining which service may be most appropriate in the circumstances. If not clearly differentiated and understood, the new service could call into question the use of AUP engagements and the underlying attestation standard, which itself only recently became effective after a public consultation process and the ASB deliberation to establish the key principles underpinning those engagements. We believe the ARSC and the ASB should more fully consider whether making amendments to AT-C section 215 could achieve their intended objectives versus setting out a new service as a means of further evolving the attestation standards.



We believe making changes to AT-C section 215 would also allow the ARSC and the ASB to develop an appropriate framework for practitioners to evaluate whether it may be appropriate to make the practitioner's report more accessible to users, as well as how to deal with the practical challenges when parties to the engagement are unwilling or unable to provide an assertion. Setting out this framework within a single standard focused on reporting procedures and findings vs. introducing a new service will help practitioners to appropriately consider the facts and circumstances in accepting and performing the engagement, including the subject matter and the intended purpose of the engagement.

We believe the following principles should guide the ARSC and the ASB as they consider how to move forward:

- In seeking to overcome the limitations and challenges that may exist with today's AUP engagements, an appropriate balance must be struck that does not undermine the quality with which AUP engagements and other attestation services are expected to be conducted.
- Any new or revised standard(s) should not place practitioners in the position of taking responsibilities that would otherwise be appropriate for management, in particular given the need for independence in attestation engagements.
- If a new service is developed, a selected procedures report should be clearly differentiated from an AUP report if these engagements are conducted under different standards. However, we believe this could be difficult to achieve, as most users will focus on the procedures and findings, which will likely be identical from an AUP report to a selected procedures report.
- Any new standard should not be used as a substitute for existing subject-matter specific standards or guidance related to AUPs, for example SOP 17-1,¹ or other attestation engagements.

We are also of the view it would be premature to move forward with the proposed standard in light of (1) the ongoing discussions on the ASB's separate but related project on "direct engagements" and (2) the IAASB's plans to revise ISRS 4400, *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*. In relation to direct engagements, preliminary decisions at the ASB's July and October 2017 meetings indicate there may be a preference to revise AT-C sections 205 and 210 rather than create new attestation standards addressing these circumstances. It would seem inconsistent to create a new service for selected procedures if similar concerns with examination and review engagements would be addressed by opening up existing standards. Further, given the AICPA's policy to align the requirements of the U.S. standards with the international standard (unless a requirement is not appropriate for the U.S. environment), it seems prudent to consider if revisions to ISRS 4400 being considered would accomplish the objectives of this initiative.

Our detailed comments in response to the issues posed in the exposure draft are included in the Appendix and have been developed with this recommendation and the aforementioned principles in mind. Where possible, we have sought to suggest alternatives that could achieve the intended outcome.

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¹ 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*.



We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions you may have. Please contact Jay D. Brodish, Jr. at (973) 236-4043 regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP



Appendix

We found a number of the questions to be inter-related so we have organized our response around five main themes. We have indicated to which specific request for comment (SRC) these matters relate for ease of AICPA staff analysis.

I. Need for a new separate standard (SRC 1A and 4B)

The ASB recently revised AT-C section 215 after public consultation and debate. If concerns have now been identified in implementing the revised standard or suggest a need for greater flexibility in an engagement to report on procedures and findings, we believe the ASB should seek to update that standard or provide additional guidance to practitioners to address those concerns rather than prematurely or inadvertently replacing AUPs with a different service.

Our recommendation

We have considered the similarities and fundamental differences between an AUP engagement and the proposed selected procedures engagement as described in paragraph 2 of the proposed standard, as well as the ARSC and the ASB's rationale in proposing a new service. In our view, the perceived need for a new service can be effectively addressed by amending AT-C section 215 rather than moving forward with a new separate standard.

This recommendation is based on our view that the ARSC and the ASB have not fully considered the potential unintended consequences of setting out this new service. We believe there is a risk, in the absence of a framework for practitioners and clients outlining which service may be appropriate, clients will simply default to requesting a selected procedures engagement to allow for the engagement to result in a general use report and/or to minimize their responsibilities (e.g., regarding agreeing to the sufficiency of the procedures for their purposes, as discussed in section II of this letter) as compared to an AUP engagement.

We acknowledge that some practitioners may be of the view there are negative consequences of opening up AT-C section 215, and some changes discussed herein could actually "weaken" AT-C section 215. However, unless law, regulation or a contract requires an AUP engagement, our belief is that the proposed SSAE will result in AUP engagements being performed with less frequency – which we believe does more harm to the AUP service than making revisions to the standard. As the proposed SSAE is currently written, all engagements performed as AUP engagements today could be performed as selected procedures engagements in the future. Therefore, attempting to address the limitations and challenges of an AUP engagement in light of today's market demands seems to be the preferable starting point, in order to ensure the AUP remains a relevant service.

If the ARSC and the ASB decide to move forward with a separate standard, we believe there are a number of areas that should be reconsidered as outlined in this letter, and we recommend the principles on page 1 be applied in making improvements to the proposed SSAE.



II. Circumstances in which an assertion may not be obtained (SRC 3A)

Previous ASB deliberations have highlighted circumstances in which the responsible party is unable or unwilling to make an assertion, as well as potential concerns in practice that the responsible party may not have a basis for making an assertion even if one is provided to the practitioner.

An assertion is defined in the attestation standards as “any declaration or set of declarations about whether the subject matter is in accordance with (or based on) the criteria.” The pre-clarity attestation standards did not require a written assertion; the assertion was generally considered as implicit in describing the character of the engagement or in the detailed procedures. We also note the following:

- Paragraph 15 of AT-C section 215 requires the practitioner to request from the responsible party a written assertion about the measurement or evaluation of the subject matter against the criteria. If the engaging party is not the responsible party, and a written assertion cannot be obtained, the agreed-upon terms of engagement must make clear no assertion will be provided to the practitioner.
- Application material in AT-C section 215 acknowledges that, even when the responsible party contends they are not in a position to provide a written assertion, this does not diminish their responsibility for the subject matter as a whole. Further, paragraph .A12 of AT-C section 215 appears to suggest that the written representation from the responsible party is equivalent to a written assertion.
- Paragraph 36 of AT-C section 215 requires disclosure in the practitioner’s report when the responsible party refuses to provide a written assertion.

Our recommendation

We believe the inability to obtain an assertion, or doubts about the reliability of the assertion, are matters that should be considered by the practitioner in determining whether to accept an engagement, including whether the practitioner expects to be able to obtain the evidence needed to arrive at the practitioner’s findings as discussed in AT-C section 105.25b(iii). In our view, it is preferable to maintain the premise that the practitioner should try to obtain an assertion, but allow for some judgment within the AT-Cs if the practitioner is unable to do so. However, we would support the ARSC and the ASB evaluating whether returning to the model of not obtaining an assertion would alleviate potential concerns in practice. The framework within today’s standards would enable the ARSC and the ASB to revise AT-C section 215 to accommodate circumstances where the practitioner may judge it acceptable to undertake an engagement without an assertion from management.

AT-C section 215 could provide additional guidance focusing on obtaining the evidence needed to arrive at the practitioner’s findings as discussed in AT-C section 105.25, and considering the implications of not obtaining an assertion, including the implications on the practitioner’s report (if any). This determination would likely take into account the nature and subject matter of the engagement, as well as consideration of whether the client wants to distribute the report more broadly. The ARSC and the ASB could develop additional guidance to explain factors that might influence the practitioner’s decision to accept an engagement when an assertion cannot be obtained.



If the ARSC and the ASB decide to move forward with a separate standard that would not require the practitioner to request an assertion, we believe it may be helpful to include guidance in the proposed SSAE for practitioners to consider whether, in light of the subject matter and the general use report, a selected procedures engagement would be the appropriate service or whether another service (e.g., an AUP or consulting engagement) would be preferable.

III. Responsibility for the procedures and written representations (SRC 1B, 1C and 3B)

In both an AUP engagement and the proposed SSAE, the responsible party is responsible for determining the subject matter. In an AUP engagement, the objectives include the practitioner applying procedures that are established by the specified parties, who are responsible for the sufficiency of the procedures for their purposes. In our experience, the practitioner is often requested to assist in the development of the procedures (as noted in issue 1 of the Explanatory Memorandum). However, AT-C section 215 is premised on the specified parties assuming responsibility for the *sufficiency* of the procedures because they best understand their own needs. Related, the concept of sufficiency of the procedures is linked to the premise that an AUP report should be restricted as to use.

The underlying premise of the proposed SSAE is that no party would be required to take responsibility for the sufficiency of the procedures. In our view, this is likely to be perceived by users as the practitioner taking such responsibility, even if the report states the practitioner did not.

While we agree in some cases the engaging party may not be best placed to make the initial determination of what procedures would be sufficient, we do not think it is the best interests of the profession or the users for the engaging party to merely provide written acknowledgement regarding their awareness of the actual procedures performed.

Our recommendations

We recommend the ARSC and the ASB explore a framework within that standard where:

- The practitioner can assist in the development of procedures, but does not take responsibility for the sufficiency of the procedures (implicitly or explicitly). This clarification would (1) accommodate the view that the responsible party and, where different, the engaging party can benefit from the practitioner's expertise and (2) recognize that, in practice, specified parties often request that the practitioner assist in developing the procedures.
- The engaging party and, where different, the responsible party agree to the intended purpose of the engagement (i.e., the use for which the practitioner's report is intended) and the criteria to be used at its outset in the terms of the engagement. Unlike the approach taken in the proposed SSAE, we believe the concept of responsible party should be retained, with further clarity as to how the concept may be less applicable for certain subject matters (i.e., as contemplated in paragraph A47 of the proposed SSAE).
- At the conclusion of the engagement and before the practitioner's report is issued, the engaging party should be in a position to agree that the procedures that were performed were appropriate in light of the intended purpose of the engagement. This essentially moves from the engaging party merely acknowledging awareness of the procedures to a more proactive requirement to determine the procedures that were performed were appropriate in light of the intended purpose of the



engagement – that is, the report results in meaningful information in light of the purpose of the engagement. We suggest this be an additional written representation. If the engaging party is unable to agree as to the appropriateness of the procedures, language should be added to the practitioner’s report highlighting this circumstance.

Said differently, we believe a distinction can be made between requiring the engaging party to take responsibility for *the sufficiency of the procedures* versus confirming that they understand the procedures and believe they are appropriate in the circumstances given the intended purpose of the engagement. This concept is similar to the premise that the company takes responsibility for the financial statements, even in circumstances where the practitioner assists with their preparation. We envision that, over the course of the engagement, the responsible party and engaging party will benefit from communication with the practitioner to develop their understanding of what procedures the practitioner intends to perform and why. This approach would also accommodate circumstances in which the nature of the procedures are set out in law, regulation, contract, or communication from a regulator or other third party, or where the practitioner may not have the ability to obtain the agreement of all parties as to the sufficiency of the detailed procedures.

We believe these recommendations are equally applicable whether the ARSC and the ASB decide to move forward with a separate standard or whether our recommendation to revise AT-C section 215 is accepted. In particular, we are concerned that removing both the requirement for the practitioner to request and assertion and any party taking responsibility for the sufficiency of the procedures results in an inappropriate (though implicit) balance of responsibilities between the practitioner and engaging party.

IV. Precluding practitioners from performing a selected procedures engagement for certain subject matters (SRC 4A)

We note many of the possible subject matters of a selected procedures engagement guidance referred to in paragraph A1 could equally be matters for which an AUP engagement may be appropriate. In our experience, all of the subject matters illustrated in the exhibit to the proposed SSAE are performed as AUP engagements today. It is therefore difficult to attempt to draw a line in the new selected procedures engagement as to which subject matters would be precluded, if any, and which standard is most appropriate for what engagement, in particular in light of the removal of the requirement to restrict the use of the practitioner’s report. This flexibility raises a concern that, in absence of a requirement for an AUP engagement to be performed, clients will seek to move towards selected procedures engagements for ease.

Our recommendation

We believe firms would need to carefully consider which service would be appropriate in the circumstances if AT-C section 215 and a separate new SSAE both existed. Such consideration would likely depend on the subject matter, the nature of the procedures that are expected to be performed, existing guidance in relation to the subject matter, and the risks of providing such a service, including how users may perceive the practitioner’s report. For example, failure to obtain an assertion in relation to some subject matters (e.g., internal control, compliance) might cause the practitioner to determine a general-use report would not be appropriate or, at the extreme, that a selected procedures engagement should not be accepted.



For this reason, we believe it is preferable to revise AT-C section 215 to set out guidance for practitioners as to how to overcome potential challenges in an AUP engagement and make judgments about the implications of not obtaining an assertion, including considering the potential impact on the report. If the ARSC and the ASB decide to move forward with a separate standard, we therefore believe additional guidance will be needed to explain that the practitioner can choose to restrict the selected procedures report and provide examples of when the practitioner may determine this to be necessary (e.g., based on the subject matter of the engagement and the nature of procedures performed).

V. Reporting issues (SRC 1D, 2A and 2B)

We understand the desire to consider whether the attestation standards could evolve to allow for the practitioner to bring expertise and provide services that may enhance credibility and trust by deriving independent findings that could be made available beyond those parties that agree to the procedures to be performed. The most common limitation our practitioners see with an AUP engagement today is the client's desire, but inability, to distribute the report to parties who have not agreed to the sufficiency of the procedures for their purposes. In practice today, there could be benefits to making practitioners' AUP reports more accessible to users, for example, when AUP engagements are required by law or regulation or when management wishes to engage a practitioner to perform services to give transparency about certain subject matters but does not require an attestation examination or review engagement to be performed. For example, the new service could be used to enable practitioners to provide bridge letters in relation to SOC 1 engagements. The AICPA, firms and the profession could also explore the development of more standardized procedures related to certain subject matters as a means of offering new or expanded services, for example in relation to reporting on a company's adherence to specific regulatory requirements, other compliance reporting, or in response to current market concerns.

In our experience, the users of an AUP report can vary from management and/or those charged with governance who are internal to the entity, to specific third parties, to a specific class of third-party users, to potentially a broad range of users. AT-C section 215 largely contemplates the users of the AUP report as the company and third parties who have agreed to the procedures, but the concept of users of these reports has changed over time. For example, in practice there is currently demand in some circumstances for the report to be made available to third parties who have not agreed to the sufficiency of the procedures for their purposes (e.g., regulators, funding agencies, ratings agencies). We also agree with the position in the Explanatory Memorandum that permitting general-use reports would enable practitioners to assist in enhancing the credibility or trustworthiness of information. We are therefore supportive of considering whether practitioner's reports could be made more widely available, as contemplated in the proposed SSAE.

The procedures in an AUP engagement and in a proposed selected procedures engagement should generally result in objectively verifiable factual findings and are not designed to provide a basis for the practitioner to form an opinion or conclusion. Instead, individual users of the practitioner's report would make their own determinations about whether the procedures performed were sufficient for their purposes.

Our recommendations

We therefore believe the ARSC and the ASB could develop appropriate guidance in a revised AT-C section 215 to help practitioners consider, based on the subject matter of the engagement and the nature of procedures performed, whether the practitioner's report should be restricted as to use or not. For example,



paragraph .64 of AT-C section 205 sets out requirements for practitioners to determine when it is necessary to restrict the use of the report in an examination engagement. We believe similar principles could be embedded in a revised AT-C section 215 to enable practitioners to consider whether an AUP report should be restricted or could be more widely distributed. Additional considerations could be framed around the need for the practitioner to avoid issuing a report that could be misunderstood by users. Similar to deciding whether to accept an engagement, the practitioner's considerations in deciding whether it is necessary to restrict the report would likely depend on the subject matter and the nature of the procedures that are expected to be performed, as well as the potential that the users of the report may misunderstand the purpose of the engagement or the practitioner's procedures and findings.

For this reason, it is also necessary to consider how best to articulate the facts and circumstances specific to the engagement in the practitioner's report, whether reporting in accordance with the proposed SSAE or a revised AT-C section 215. We believe there are ways in which the practitioner can satisfy himself or herself that users will understand the purpose for which the report of factual findings is intended to be used. This could, for example, include using clear terminology, outlining the purpose for which the report is prepared, and what the practitioner's responsibilities are in regard to performing the engagement.

Our specific recommendations on how to improve the communicative value of the practitioner's report as included in the proposed SSAE are as follows:

- The report should be transparent as to the intended purpose of the engagement, the engaging party and, if different, the responsible party, and the procedures performed (as contemplated in part by the proposed requirement in paragraph 53(c) of the proposed SSAE).
- The report should, in most cases, indicate that the responsible party takes responsibility for the subject matter. For certain subject matters, this may not be practicable (e.g., a benchmarking engagement), in which case the responsible party would only take responsibility for the identification of the subject matter.
- The report could note that at least the engaging party, and in some situations the responsible party, agree that the procedures that were performed were appropriate in light of the intended purpose of the engagement. If the requirements and guidance of the proposed SSAE were subsumed into AT-C section 215 and the notion of obtaining an assertion is retained, we would suggest the report also make specific reference as to whether the responsible party provided an assertion.
- The report should clearly indicate that the practitioner does not take responsibility for the sufficiency of the procedures. Where the engaging party or responsible party takes such responsibility, or when the procedures are required by law or regulation, this could also be described.
- The report should include a statement that the procedures performed may not address all items of interest to users and may not meet the needs of all users and, as such, users are responsible for determining the sufficiency of the procedures for their intended purpose (as contemplated by the proposed requirement in paragraph 53(f) of the proposed SSAE).

We believe these recommendations to improve the practitioner's report are equally applicable whether the ARSC and the ASB decide to move forward with a separate standard or whether our recommendation to



revise AT-C section 215 is accepted. If a new service is developed, a selected procedures report should be clearly differentiated from an AUP report if these engagements are conducted under different standards.

VI. Other matters

Independence

The proposed SSAE has been drafted on the premise that the *Independence Standards for Engagements Performed in Accordance with Statements on Standards for Attestation Engagements* interpretation would apply. Paragraph 26 of the proposed SSAE is clear the practitioner does not take responsibility for the subject matter, which is a key element of being independent. We agree independence should be required in any attestation service. We believe it is necessary for the ARSC and the ASB more fully explore whether there are any unique considerations that need to be taken into account before moving forward with a new type of service, in coordination with PEEC.

For example, it is unclear how the elimination of the concept of responsible party in the proposed SSAE interacts with the requirement in the AICPA Code of Professional Conduct (AICPA Code) that “the *covered member* needs to be independent with respect to the responsible party(ies), as defined in the SSAEs.” We also note that AUPs are addressed separate from other attestation engagements in the AICPA Code, which leads to a question of where the proposed new service would best fit. Finally, additional guidance may also be needed in the proposed SSAE or through revisions to the AICPA Code to explain any potential implications of the practitioner designing the procedures when the responsibility party or the engaging party does not take responsibility for the sufficiency of them. In our view, it would be helpful for the ARSC and the ASB to hear directly from PEEC their views as to the new service and any potential implications on the AICPA Code.