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Accounting and Review Services Committee
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Via Email to mike.glynn@aicpa-cima.com; chuck.landes@aicpa-cima.com

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

Dear Committee Members and Staff:

Grant Thornton LLP appreciates the opportunity to comment on the Proposed Statement on Standards for Attestation Engagements, *Selected Procedures*. Overall, we are supportive of the concept of this type of engagement because it could resolve issues that do arise in practice. We agree that there are occurrences, though seldom, where performing procedures and reporting findings is sufficient to meet the objectives of the engagement, but the nature of the entities involved precludes the ability to obtain acknowledgment of the sufficiency of those procedures from each of the parties, thus making an agreed-upon procedures (AUP) engagement impractical. This potentially denies the intended users of the benefit of having an independent practitioner involved. The proposed selected procedures engagements would allow a practitioner to provide an independent service under the attestation standards in the above circumstances, when appropriate. Nevertheless, while supportive of the general approach, we have several concerns, detailed below, with the proposed standard. We respectfully submit our comments and recommendations for the Committee's consideration.

Summary views on key concepts

We note that the proposed standard includes certain principles that would revise or eliminate requirements in AT-C section 215, *Agreed-Upon Procedures Engagements* (AT-C 215). Our views on those principles are as follows:

- *Not requiring a written assertion from the responsible party:* We support the determination that a written assertion is not required for a selected procedures engagement. We also support the elimination of this requirement from an AUP engagement.
- *Acknowledging the sufficiency of the procedures:* We do not support the notion that the practitioner can take responsibility for the sufficiency of the procedures for the users, as we believe this is problematic from an independence perspective. However, we do

acknowledge that the practitioner can be involved in determining the procedures to meet the objective(s) of the engagement.

- *Eliminating the restriction of the report to specified parties:* We are supportive of eliminating the restrictions on the use of the report, with an option for the practitioner to restrict where deemed appropriate. We also support the notion that the users of the report would make their own determination as to its sufficiency and that this responsibility would be delineated in the report.
- *Merging the proposed standard with the clarified AUP requirements:* We support merging the proposed selected procedures standard with the existing AUP standard, and providing context and application guidance to allow practitioners to determine the appropriate form of engagement for the circumstances. We ask the Committee to strongly consider whether re-exposure is necessary to allow commenters to see the proposed changes to the Common Concepts section and the current requirements in AT-C 215.

We have provided more detailed comments on these and other topics below, including certain inconsistencies in the descriptions of responsibilities of the various parties.

Independence considerations

Because the practitioner may have expertise in relation to the subject matter or criteria, paragraph 1 of the proposed standard, among others, suggests it is appropriate for the practitioner to develop the procedures. We agree with this notion and are supportive of the flexibility it provides. However, paragraph 1 also suggests the practitioner can take responsibility for the sufficiency of the procedures. While the practitioner may have the knowledge and expertise to develop appropriate procedures, it is difficult to support the view that a practitioner who takes responsibility for the sufficiency of the procedures could also be objective relative to the outcome of the procedures. We believe that this provision could raise an issue with respect to the appearance of independence. We recommend that the proposed standard be revised to eliminate the provision allowing the practitioner to take responsibility for the sufficiency of the procedures and instead clearly indicate that the practitioner may determine or assist in determining appropriate procedures in order to meet the objectives of the engagement.

Inconsistencies in describing responsibilities

We believe foundational requirements for selected procedures engagements should include that a party, either the engaging or other party, takes responsibility for the subject matter of the engagement and for determining that the criteria to be used in the engagement is appropriate (when criteria is a relevant consideration for the engagement circumstances as discussed further below). We think that these notions are unclear and in some places inconsistently applied throughout the proposed standard, as demonstrated in the following bullets:

- The only precondition that speaks to taking responsibility for the subject matter of the engagement is in paragraph 26a, which states only that the practitioner does *not* take such

responsibility. We believe further expansion of the preconditions should include whether an engaging or responsible party will take responsibility for the subject matter.

- Paragraph 30a(v) requires identification of “either the party that is responsible for the subject matter of the engagement, or the source of the subject matter, as applicable” when agreeing on the terms of the engagement. This could indicate that there may be situations where no one takes responsibility for the subject matter, which we believe is inappropriate. We suggest that this requirement be clarified.
- While paragraph 30c states that “the responsibilities of the engaging party related to the subject matter of the engagement, which include, when applicable, the following:” it is unclear to what the related “when applicable” qualifier applies: the responsibility or certain of the sub-bullets. We believe this should be revised, since it appears certain sub-bullets would always apply. We also suggest that the Committee mention the criteria in the context of the engaging party’s responsibilities.
- Paragraph 46b requires the practitioner to request a written representation that the engaging party acknowledges responsibility for the subject matter and for determining that the criteria is appropriate for the purposes of the engagement, despite there being no corresponding preconditions or agreement to these terms at the outset of the engagement. We believe the terms of the engagement should align with the required written representations.
- Paragraph 53 requires that the practitioner’s report include “a statement that the engaging party is responsible for the *selection* of the subject matter” [emphasis added]. The notion of the “selection” of subject matter is different from the responsibility for the subject matter itself. This statement especially appears unsupported given the inconsistency and/or absence of these requirements in the proposed standard. We believe the reporting should align with the description of the responsibilities set forth in the terms of the engagement and representations sections. We do not believe selection is appropriate if responsibility for the subject matter is not also made clear, given the potential independence implications and implications on issuing unrestricted reports.

We acknowledge the discussion in the proposed standard that a party may not have “control” over the subject matter, for example, days of sunshine in a city for a given period. Nevertheless, we believe such party can still take responsibility for that subject matter. Note that in current attestation engagements, it is sometimes necessary for the engaging party to use a specialist to develop or gather the subject matter for the engagement, but the engaging party still takes responsibility for that subject matter for purposes of the engagement. We believe the notion of “control” may create operational issues specific to the engaging party providing representations related to the completeness and accuracy of the subject matter. We believe this notion highlights situations where the practitioner would apply professional judgment to determine if the subject matter of the engagement is appropriate, as currently required within paragraph 25b of AT-C section 105, *Concepts Common to all Attestation Engagements* (AT-C 105).

We note that the definition of “criteria” as presented in the exposure draft is inconsistent with how or whether criteria may be relevant for an AUP or selected procedures engagement. We believe the definition should be revised to acknowledge situations where criteria is not a relevant consideration—that is, circumstances where measurement or evaluation of the subject matter against criteria is not performed.

Use of the practitioner’s report

We recognize that one of the main objectives of the proposed standard is to provide greater flexibility to practitioners. However, as currently drafted, we believe the proposed standard could be used to inappropriately mislead users with respect to reporting procedures in findings that may actually be insufficient for their purposes, although consistent with the objectives of an engagement. Because the proposed standard allows for general use reports, there are foreseeable circumstances where users, unfamiliar with the subject matter, could presume a level of sufficiency in the procedures performed that does not exist.

Many potential subject matters of a selected procedures engagement are implicitly the responsibility of the entity controlling the subject matter (the responsible party), for example, hiring data, emissions data, and data contained in accounting records or internal controls. Absent an explicit statement indicating who is taking responsibility for the sufficiency of the procedures, users may presume sufficiency of the procedures because of the relationship of the subject matter to the responsible party. This could result in a practice issue since the provisions of the proposed standard allow for no party to take responsibility for the sufficiency of the procedures for any purpose (as noted in, for example, paragraph 1 of the proposal) when such responsibility could easily be taken if the circumstances warrant.

Consistent with our earlier comments, we believe it is imperative that the engaging party take responsibility for the sufficiency of the procedures for the intended purpose when, in the judgment of the practitioner, a reasonable basis exists for the engaging party to take such responsibility. In turn, we believe the practitioner should then be required to document the circumstances leading to the judgment that the engaging party does not have a reasonable basis to take responsibility for the sufficiency of the procedures. This would not be as prescriptive as extant AT-C 215, which requires all specified users to agree to the sufficiency of the procedures, and a general use selected procedures report could still be issued without the sufficiency addressed at the discretion of the practitioner.

Paragraph 42 of the proposed standard requires the practitioner to “obtain a written acknowledgement from the engaging party regarding their awareness of the procedures performed.” This proposed requirement generally should not be problematic for the engaging party as it simply suggests, though it is unclear as currently written, the engaging party confirms that the procedures “meet his/her needs.” In situations where the engaging party is unable or unwilling to take responsibility for the sufficiency of the procedures, the practitioner should be required to restrict the use of the report to the engaging party, the party responsible for the subject matter, and persons who would reasonably understand the subject matter and its relationship to the criteria. This restriction would prevent wide circulation of the practitioner’s report and unintended reliance on the sufficiency of the procedures. Thus, absent some

protections and the use of judgment on the part of the practitioner to restrict the report, engaging and responsible parties could abuse this type of engagement and harm general use recipients.

Content of the practitioner's report and illustrations

We note that none of the six illustrative reports provided in the proposed standard presents an example where any party takes responsibility for the sufficiency of the procedures. We are concerned that this omission could result in a conclusion that it is unlikely there will be situations where an engaging or different responsible party takes responsibility when given the option to do otherwise. If this is the expectation, we question the relevance of paragraph 53e, especially since the concept of *sufficiency* is different between paragraphs 53e and 53f – a difference many users may not recognize or understand. Paragraph 53e uses sufficiency in relation to the individual procedures for the purpose of the engagement, whereas paragraph 53f suggests sufficiency of the procedures overall for the user's intended purpose. We believe the standard should be revised to more clearly differentiate these notions. We also believe it would be helpful to provide illustrations where an appropriate party acknowledges responsibility for the sufficiency of the procedures.

Further, we believe the notion of “procedures performed,” as described in paragraph 53f, could imply that the practitioner performed more procedures than what is included in the practitioner's report. Therefore, we believe 53f should be revised to say, “A statement that the procedures *described in the report* may not address all items of interest...”

The second sentence of paragraph 53h(i) states that “those standards require that the practitioner apply procedures to the subject matter and issue a written practitioner's report that describes the procedures applied and the practitioner's findings.” This language appears extraneous, and we do not believe the inclusion of this statement adds value to users' understanding of the report. Therefore, we recommend deleting that sentence from the requirement.

We also recommend the Board ensure that there is consistency between the requirement in paragraph 53k and the language within the illustrative reports. The former states “limitations” on procedures or findings, whereas the latter discusses “reservations or restrictions.” We believe the illustrative report language should be revised to align with the language in the proposed requirement.

Integration with AUP requirements

A separate standard may indeed provide certain advantages, as it may cause less confusion for a practitioner in selecting between a selected procedures engagement and an AUP engagement. We believe, however, that there is significant overlap between the common concepts and performance and reporting requirements to support amending the clarified AT-Cs to integrate the selected procedures engagement requirements. This integration would also minimize the potential for confusion with state boards and other professional organizations.

We are concerned, however, that integrating the option to perform a selected procedures engagement within AT-C 215 may result in questions or concerns from regulators where an AUP is required or accepted to meet a requirement, for example, an AUP engagement for broker-dealers required by the Securities Investor Protection Corporation. We strongly encourage the AICPA and its boards to communicate directly with regulators that currently require or accept AUP engagements to obtain their feedback on whether the potential changes are also be acceptable for their purposes.

Other matters

Internal audit

Paragraph 41 states that “although the practitioner may use the work of internal auditors, the selected procedures to be listed or referred to in the practitioner’s report should be performed entirely by the engagement team or other practitioners.” We find this paragraph confusing, particularly because a written assertion from the responsible party is not required. If an internal auditor is involved, it seems to imply some level of responsibility and that some measurement or evaluation took place. This further illustrates the confusion created by the inconsistencies with respect to who is responsible for what throughout the proposed standard.

Subsequent events

Paragraph 59 of the proposed standard requires the practitioner to consider subsequent events “when relevant to the engagement.” We do not believe this requirement is appropriate. A selected procedures engagement is still an engagement limited to procedures and findings and provides no assurance. If subsequent events are relevant to the engagement, appropriate procedures to that effect should be built into the engagement and findings should be reported relative to those procedures. We believe the proposed requirement is open to unnecessary interpretation for this engagement type. The existing requirement in paragraph 41 of AT-C 215 appears more appropriate, to avoid confusion as to when subsequent events procedures should be performed.

Impact on other AICPA publications

We encourage the Committee to consider the impact that the adoption of this proposal may have on other AICPA publications. We believe it is important to identify current references in other standards, accounting and audit guides, and other audit literature where revising the nature of an AUP engagement may result in the need to evaluate whether selected procedures is an acceptable option.

Re-exposure

We have not provided specific paragraph-level suggested edits given our recommendation to combine the proposed guidance and align the language with that in AT-C 215. If the Committee agrees with incorporating the requirements of selected procedures engagements into extant AT-C 215, we strongly encourage re-exposure of the marked extant standard, as well as AT-C 105. Ultimately, it would be beneficial to the profession to allow stakeholders to review and comment on how AUP engagements and selected procedures engagements “come together” in one standard.

If you have any questions about our response, or wish to further discuss our comments, please contact Bert Fox, National Managing Partner of Professional Standards, at (312) 602-9080 or Bert.Fox@us.gt.com.

Sincerely,

Grant Thornton LLP