



December 6, 2017

AICPA Accounting and Review Services Committee
Mike Glynn at mglynn@aicpa.org

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

Dear Committee Members:

The Audit and Assurance Services Committee of the Illinois CPA Society (“Committee”) is pleased to comment on the AICPA Accounting and Review Services Committee’s Proposed Statement on Standards for Attestation Engagements - *Selected Procedures*. The organization and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These comments and recommendations represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which such members are associated.

Specific Request for Comment 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.

To answer this question, the A&A Committee divided its answer into three components:

- Yes, the proposed standard expands the practitioner’s ability to perform and report on certain procedures.
- Additional fact finding and clarification is needed to determine if the proposed standard, or relevant parts therein, are in the public’s interest.
- Assuming the proposed standard, or certain components of the proposed standard, expand the practitioner’s ability to provide his or her services and the proposed standard is in the public interest, we offer an additional specific example.

Does the proposed standard expand the practitioner’s ability to perform and report on procedures beyond those currently provided by AT-C section 215?

Yes, as discussed below, the proposed standard expands the practitioner’s ability to perform and report on certain procedures.

Currently, when the practitioner is requested by a client to perform procedures outside of a traditional audit, and issue a report, the practitioner is challenged to design an engagement that: 1) satisfies the client’s needs; and 2) does not expose the practitioner, or profession, to undue risk. Under the extant standards, when designing the engagement, the practitioner has two options: 1) an agreed-upon procedures (AUP) report; or 2) a consulting engagement. Generally, when the practitioner needs to perform procedures on another party’s subject matter for the benefit of a third party, an AUP engagement is preferable. A consulting engagement is typically intended for use and direct benefit of the client. Additionally, the standards for performing a consulting engagement as defined in CS Section 100 are less stringent than the agreed-upon procedures standards, there are no specific reporting standards for



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consulting reports, and these do not require independence. As such, the consulting report does not necessarily add the consistency and quality of service resulting from the clearly defined Attestation Standards.

In theory, the proposed standard would provide greater flexibility to practitioners by allowing them to develop procedures that could change as needed, without the requirement to amend the engagement letter, as is the case in an AUP engagement. As such, the proposed standard may reduce the related administrative burden of changing the engagement letter and obtaining the approval of the responsible parties.

Many practitioners may welcome the changes because engaging parties (and/or client personnel) frequently lack ability or familiarity with specific requirements of the subject matter or the criteria, or may lack a willingness to fully develop or determine the procedures. Unlike existing AUP engagements, that compel the practitioner to have prior discussions with the specified parties in advance of performing procedures, the proposed changes would allow practitioners to identify requirements and develop the best course of action. This approach could improve efficiency of the engagements and be perceived as a value-added service to prospective clients and users of the selected procedures reports (e.g., the public)

Is the proposed expansion in the public interest?

For concerns enumerated below, additional fact finding and clarification from the AICPA is requested before the Committee reaches a conclusion regarding the public interest component of Comment 1A. The Committee's biggest concern centers on the responsibility of the sufficiency of the procedures. Based on the language and contents of the exposure draft (ED), there are certain risks involved in "selected procedures" engagements that: 1) may lead to misunderstandings between the engaging parties, users, and practitioners as to responsibilities of CPAs; 2) may ultimately increase practitioners' professional liability risk; and 3) may not deliver a needed service to the public.

Under the extant standard, the practitioner does not take responsibility for the sufficiency of the procedures between the other two parties.¹ However, "the specified parties assume responsibility for the sufficiency of the procedures since they best understand their own needs."² By allowing the specified parties to disclaim all responsibility for the sufficiency of procedures or use of report, the proposed standard increases the risk that the users of the selected procedures would not think through their objectives before engaging the practitioner. The resulting report may not be perceived as having as much value as one where the user, or a representative of the users, has taken responsibility for the sufficiency of the procedures and use of the report.

Also, as an unintended consequence, the lack of the responsibility requirement may lead certain practitioners to accept engagements that they should not accept prior to conducting thorough discussions with the engaging parties or responsible parties (and/or users) as to the intended purpose and objectives of the procedures. Currently, practitioners are compelled to make thorough inquiries and research the objectives of procedures prior to accepting any AUP engagements. While the extant requirements may be

¹ See AT-215.12–AT-215.14.

² See, for example, AT-215.03, AT-215.06, AT-215.07, and AT-215.10.



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perceived as burdensome to certain practitioners, the requirements help ensure quality services are provided by the profession as a whole.

There are currently no services that could not be provided under either the attestation or consulting standards. All types of “selected procedures” engagements (where the engaging party requests practitioners to perform certain procedures) can be arranged as either a consulting engagement or an attestation engagement. Therefore, as much as the proposed standard could streamline the process for performing certain engagements, the additional risk resulting from the lack of the requirement to take responsibility for the sufficiency of the procedures would have to be addressed and revised.

Additional specific example

Assuming the proposed standard, or certain parts, expand the practitioner’s ability to provide his or her services and the proposed standard is in the public interest, we offer the following additional specific example when, in practice, a practitioner may perform an engagement in accordance with the proposed standard:

The specified parties are: 1) the United States of America; 2) a state; 3) a Trust; and 4) the Trustee. The subject matter is a trust that was established to remediate environmental damage caused to the natural habitat. The Trust was awarded a portion of billions of dollars earmarked for the purpose of remediating the damage. The Trustee needs to demonstrate compliance with certain reporting requirements detailed in the Trust agreement. Those reporting requirements require: 1) that the Trust receives all the funds to which it is entitled; and 2) that cash disbursements from the Trust are only used for remediation or permitted administrative disbursements.

The practitioner was asked to provide a cost-efficient solution to interpret and address the reporting requirements of the Trust agreement. In response, the practitioner helped the Trustee develop specific procedures on the cash receipts and cash disbursements of the Trust to demonstrate annual compliance, which is the assertion. The agreed-upon procedures report is addressed to the Trust, the Trustee, the United States of America, and the state (specified parties). The report states that the procedures were agreed to by all of the aforementioned parties and that the sufficiency of these procedures is solely the responsibility of the management of the Trustee. The procedures and findings are provided, and the report is restricted, to the use of the responsible parties.

Applying the current version of the ED, the Committee believes the Selected Procedures guidance differs from the extant guidance in the following ways:

1. In a Selected Procedures engagement, the practitioner would not have to obtain an assertion from the Trustee regarding compliance. Instead, the report findings would be sufficient.
2. In a Selected Procedures engagement, the practitioner would be free to modify procedures without having to obtain agreement from the specified parties.
3. The Trustee would not have to take responsibility for the sufficiency of the procedures although the Trustee may want to.
4. The specified parties would make their own decisions about whether the procedures performed were sufficient for their purposes. As the engagement is currently performed, it is difficult to document that the United States of America, and the state, as specified parties, have agreed to the sufficiency of the procedures. However, it would be much easier to obtain a representation letter



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from an appropriate official of the United States of America acknowledging his or her awareness of the actual procedures performed.

Specific Request for Comment 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?*

Yes, except for concerns enumerated in this letter. In short, the proposed standard offers increased flexibility, but carries risk of misunderstandings resulting from reduced accountability and/or clearly defined responsibilities.

Specific Request for Comment 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?*

No, we disagree with the premise that a disclaimer of responsibility is appropriate. Currently, the practitioner does not take responsibility for the sufficiency of the procedures performed. However, the lack any party's responsibility for the sufficiency of the procedures could lead to:

- misunderstandings between parties;
- reduced usefulness of the reports;
- erosion of public trust; and
- potential additional professional risk.

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

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

a. Yes, the ED appropriately communicates the reporting requirements specific to situations when no party takes responsibility for the sufficiency of the procedures, but we do not agree with the premise that no party should take responsibility for the sufficiency of the procedures (as explained in this letter).

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

b. Yes. The extant standard does not reference whether the practitioner can take responsibility for the sufficiency of the procedures. The Committee believes that the proposed standard should not add an option for the practitioner to 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.

c. Yes, the ED appropriately communicates the reporting requirements specific to responsibilities (or lack thereof) of the practitioner, engaging party, and the party responsible for the subject matter, but we do not agree with the premise that no party should take responsibility for the sufficiency of the procedures (as explained in this letter).



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

Yes. However, the Committee is concerned that the general-use selected procedures reports may increase a practitioner's professional liability, as these reports may be available to a wider and potentially unknown audience. Additionally, there may still be certain circumstances in which restricted-use reports may be more appropriate. Therefore, the Committee recommends that the proposed standard provide better guidance on the circumstances when general-use reports, as opposed to restricted use reports, should be used.

Specific Request for Comment 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?*

Yes. All selected procedures reports should include additional language disclosing a party or parties that determined the procedures to be performed by the practitioner.

Specific Request for Comment 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?*

Yes.

Specific Request for Comment 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 select procedures engagement? If so, please provide specific representations that the practitioner should be required to request.*

Yes. The practitioner should request a representation confirming that the responsible party or engaging party determined the procedures to be performed by the practitioner to be sufficient.

Specific Request for Comment 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.*

The practitioner should be precluded from taking on selected procedures engagements where neither the engaging party nor the specified parties take responsibility for sufficiency of procedures (see the Committee's response to Comment 1C).

Specific Request for Comment 4B: *Do you believe the proposed standard should be included in the professional literature (a) as revisions to the AT-C section 215 (resulting in the agreed-up 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.*

The need for the Selected Procedures engagements seems to be limited to specific situations. However, for efficiency reasons, revisions to AT-C section 215 would be preferred to give the practitioner a single-source for guidance when deciding between an AUP or Selected Procedures engagement. The Committee is concerned that practitioners may have difficulties in deciding when a Selected Procedures engagement



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would be more appropriate than an AUP engagement. Therefore, to assist the practitioner with deciding between an AUP or Selected Procedures engagement, we recommend the AICPA consider adding a decision tree with key questions the practitioner should ask themselves before making a decision. For example, the decision tree could include the following questions: (1) are the number of potential users so numerous that knowing if the procedures performed are sufficient for the user's purposes is impossible; (2) does the responsible party have the ability or willingness to provide a written assertion; (3) have the specified parties taken responsibility of the sufficiency of the procedures;³ (4) will the report be restricted or for general use?

The Committee appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Sincerely,

James R. Javorcic, CPA

Chair, Audit and Assurance Services Committee

Scott Cosentine, CPA

Vice Chair, Audit and Assurance Services Committee

³ As explained above, the Committee believes the specified parties should take responsibility for the sufficiency of the procedures.



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APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2017 – 2018

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members. The Committee seeks representation from members within industry, education and public practice. These members have Committee service ranging from newly appointed to almost 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

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Scott Cosentine, CPA	Ashland Partners & Company LLP
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