



Dec. 8, 2017

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Accounting and Review Services Committee
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Re: Proposed Statement on Standards for Attestation Engagements – *Selected Procedures*

The Accounting and Auditing Procedures Committee (the committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to provide comments on the proposed Statement on Standards for Attestation Engagements – *Selected Procedures*. The PICPA is a professional CPA association of more than 22,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The committee is composed of practitioners from both regional and small public accounting firms, members serving in financial reporting positions, and accounting educators.

General Comments

The committee generally supports the Accounting and Review Services Committee’s efforts to provide CPAs with guidance to perform selected procedures that neither require management to provide an assertion nor to assume responsibility for the sufficiency of the procedures. The committee understands there are numerous engagements in which the procedures cannot be fully delineated at the outset of the engagement, but rather require CPAs to use their unique skill set to develop procedures during the course of the engagement to meet the client’s objective. Current attest standards for such engagements can be cumbersome, as often the CPA is required to educate the client about management’s responsibility for the sufficiency of the procedures and update the engagement letter as each additional procedure is added.

Some on the committee believe that creating a robust framework for a selected procedures engagement within the attestation standards may provide greater practice consistency and higher quality, elevating the perceived value of the engagement over engagements performed under the consulting standards.

Others on the committee wonder why practitioners could not simply follow the AICPA’s current consulting standards to perform such selected procedures engagements. Those standards indicate “consulting services differ fundamentally from the CPA’s function of attesting to the assertions of other parties. In an attest service, the practitioner expresses a conclusion about the reliability of a written assertion that is the responsibility of another party, the asserter.” The committee also finds it unclear how this new proposed “selected procedures” engagement would be an attest engagement since the engaging party would not be providing a written assertion. Additionally, engagements performed under the consulting standards are not restricted to specific users, and therefore meet the needs of clients that are looking for a general use report.

While the new standard requires a representation letter, that letter doesn't appear to be the equivalent of an assertion. If there is no assertion and no representation letter that includes an assertion (or the equivalent), it is unclear why practitioners could not perform the proposed service under the existing consulting standards.

Specific Requests for Comment

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.

The committee generally supports additional guidance for selected procedures engagements. For example, applying current agreed-upon procedures standards to an engagement related to tax return audits can be challenging. In such engagements it is difficult to provide a comprehensive list of all procedures to be performed since they vary from taxpayer to taxpayer; only the CPA knows which procedures to apply during the course of the engagement. Under existing attestation standards, the practitioner is required to communicate all additional procedures to the client, and repeatedly adjust the engagement scope and terms.

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.

The committee agrees that the proposed standard is flexible. However, it has several concerns regarding the lack of appropriate parameters. Specifically, who takes responsibility for the sufficiency of the procedures and the framework for designing procedures? These concerns are discussed further below.

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?

Some on the committee find this proposal to be counterintuitive. If a client is engaging the CPA to design and perform procedures to achieve a stated objective, can the CPA disavow responsibility for the sufficiency of the procedures? Isn't the underlying objective of the selected procedures engagement to leverage the CPA's expertise to design procedures sufficient to meet a given objective? On the other hand, if the client has designed the procedures, shouldn't the client be responsible for the sufficiency of the procedures? These committee members believe that the party designing the procedures should take responsibility for their adequacy.

Others on the committee view responsibility as a legal matter, and note that situations could arise wherein it may be acceptable for no party to take responsibility for the sufficiency of the procedures. However, these situations should be limited to restricted use reports in which all users

are known, thereby allowing objective evaluation of the criteria. As discussed below, it may be challenging for practitioners to objectively evaluate criteria for a general use report in a setting where no one takes responsibility for the sufficiency of the procedures.

The committee also believes that the concept that no party would be required to take responsibility for the sufficiency of the procedures conflicts with a statement included in the proposed report (page 51, para. 53 f.) that “users are responsible for the sufficiency of the procedures.”

Specific Request for Comment 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.
- b. When the practitioner, the engaging party, another party, or a combination of these parties 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.
- d. The limitations of the engagement.

Para. 34 permits the practitioner to accept records and documents as genuine. It is not clear how this acceptance is included in the proposed report. Additionally, if practitioners are designing the procedures to meet a specific objective, it is arguable that they should have performed procedures to ensure the underlying integrity of the data.

Para. A47 notes that there may be circumstances in which no party is responsible for the subject matter of the engagement. Can the practitioner accept the sufficiency of the documents and records when no party is responsible? Plus, shouldn't the report (para. 53 d.) disclose the source of the information and that no one is claiming responsibility for the subject matter?

Para. 53 h. ii. requires the following report language: “The practitioner was not engaged and did not conduct an examination or review, the objective of which would be the expression of an opinion or a conclusion, respectively, on the subject matter.” The committee notes that this engagement is not an assurance engagement, and believes that this should be better highlighted in the report.

Also, the committee has concerns regarding the practitioner's responsibility for the selected procedures report as time passes. Unlike a typical engagement, which covers a specified date or time period, a selected procedures engagement could be based on criteria for which the timeframe is not well-defined. As such, third parties may rely on a selected procedures engagement after circumstances have changed within the organization, or the specified criteria are no longer

appropriate. The committee believes that additional report language is needed to adequately inform potential users regarding the limitations of the selected procedures report and the possibility that changes in circumstances could have occurred after the date of the report that could have impacted the procedures selected or the results of those procedures.

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.

The committee is concerned that permitting general-use selected procedures reports is not in the best interest of the public until better parameters and clear responsibilities are defined and additional guidance is incorporated into the standard, to wit:

Potential for Misleading the User Not in the Public Interest – The committee believes that clients potentially could structure the criteria in such a manner that the selection of procedures could result in information that could be used to mislead third parties. The lack of perceived responsibility associated with a selected procedures engagement could motivate clients to manipulate the scope of the criteria or influence the selection of procedures to mislead third party users; for example, by influencing the selection of procedures to provide positive information about their companies and exclude other procedures which convey unfavorable information. Although paragraphs A.33 through A.42 touch upon the practitioner's responsibility with regard to these issues, the committee believe that these judgements may be difficult for practitioners to properly assess objectively. While the CPA has an ethical responsibility not to undertake an engagement where he or she would knowingly mislead third-party users, given the lack of sufficient parameters over the procedures, and considering the proposed lack of responsibility over the sufficiency of the procedures, more robust parameters and guidance is needed in this area.

Lack of Responsibility and Practitioner Liability – The committee believes that it is overly optimistic to presume that the lack of responsibility imparted to the practitioner under the proposed standard will be accepted and understood by the user community or will withstand legal challenges. The committee is concerned that as a general-use report the practitioner would have a great deal of difficulty disavowing responsibility for procedures the practitioner selected. The committee believes that having a client or a third-party user accept responsibility for the sufficiency of the procedures as a precondition to issuing a general-use selected procedures report should be considered. Additionally, whereas para. A91 states that a practitioner is neither "required or precluded from making an explicit statement that the practitioner makes no representation regarding sufficiency of the procedures" such a statement should be considered a precondition for the issuance of a general purpose selected procedures report.

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?

If general-use selected procedures reports are permitted, the committee believes that the report should include the objective of the procedures, who designed them, who is responsible for the sufficiency of the procedures if anyone, and a disclaimer that the procedures may not be sufficient to meet the users' needs.

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 selected procedures engagement? If so, please provide specific representations that the practitioner should be required to request.

The committee believes that the client should represent the intended purpose of the engagement to the practitioner, acknowledge awareness of the procedures performed, and all matters included in para. 30c. Para. 46e. should be expanded to include misstatements in the underlying records relevant to the subject matter, where applicable (based on para. 34, which allows the practitioner to accept records and documents as genuine).

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 committee is concerned that third parties (e.g., lending institution, oversight agencies) may request or require procedures to support their own analysis of the client's solvency. This would not be in the public interest or in the interest of practitioners, and should be explicitly prohibited. For example, one regulator in Pennsylvania required practitioners to perform certain procedures to support the not-for-profit entity's solvency. An appeal to the regulatory body successfully led to the revision of the procedures and the objective. It is not clear whether these currently prohibited engagements would continue to be prohibited under this new engagement. The proposed guidance in para. 15 indicates the following: "If the practitioner is required by law or regulation to use a specific layout, form, or wording of the practitioner's report and the prescribed form of the report is not acceptable or would cause a practitioner to make a statement that the practitioner has no basis to make..." Additional guidance should be included here to explain the basis upon which to assess whether the layout, form, or wording of the practitioner's report and the prescribed form of the report is not acceptable or a statement has no basis. This guidance should include an explicit prohibition on providing solvency opinions.

Specific Request for Comment 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.

The committee supports a stand-alone AT-C section for the new selected procedures engagement, as it believes that combining it with AT-C section 215 could result in a lack of clarity.

Other Specific Comments

Independence – As explained below, the committee believes that additional consideration should be given to how a selected procedures report influences independence, and that additional guidance should be provided as to when independence would and would not be impaired, including examples of suitable safeguards. However, since this proposed level of service is an attest service and not an assurance service, it is not clear why independence is required. If independence is not needed, the guidance should be revised to include a statement regarding the lack of independence in the report.

The committee questions whether the mere act of selecting certain procedures to perform while not selecting others creates a management participation or advocacy threat that may not be overcome. An advocacy threat could be created because the criteria selected, and procedures performed, could be used by the client to suggest implicit endorsement of its products, services, or organization. The concept of an implicit endorsement as it pertains to a third-party user would be strengthened if the client can disavow responsibility for the procedures selected. A management participation threat would likely be inherently present during the practitioner's selection of procedures if the client is unwilling to take responsibility for those procedures. Lastly, the process of selecting procedures would be vulnerable to the potential for undue influence threats. Interested parties may try to influence the procedures chosen if they feel that they do not have to accept responsibility for those procedures, thereby putting practitioners in a situation that can easily evolve into a conflict of interest. The standard should be written to better protect practitioners from these threats.

The committee believes this standard's introduction of "no-responsibility reporting" creates a multifaceted dilemma. First, in evaluating independence, should the practitioner assume that the client's unwillingness to accept responsibility creates a significant threat to independence in the realm of management participation, or advocacy? Second, if a client or third party suggests certain procedures be performed, does that suggestion immediately create an undue influence threat since neither the client nor the third party are willing to accept responsibility for the procedures? Third, how can those threats be overcome when no one wants to accept responsibility for the sufficiency of procedures implied in current AUP engagements?

Furthermore, if the selected procedures engagement is incorporated into the financial statements as supplementary or other information, how is the practitioner to satisfy the self-review threat imposed as it relates to the CPA's responsibilities regarding supplementary or other information if both the practitioner and the client are disclaiming that responsibility? Would changes in the report on supplementary information be required?

Impact of Other Client Attest Work on Selected Procedures Engagement – The committee believes that the selected procedures guidance should include additional considerations regarding the impact of the

results of other client attest work on the selected procedures engagement for the same client. For example, whether there were material weaknesses in internal control over financial reporting elements that relate to the subject matter of the selected procedures engagement. The committee notes that para. A105 allows the practitioner to reference an audit or review report that has a departure from the standard report, but does not provide any guidance as to when this reference would not be made.

Peer Review – Many practitioners who currently perform work under the consulting standards are not enrolled in, and are not required to be enrolled in, the peer review program. If selected procedures work is required to follow the attest standards rather than the consulting standards, these practitioners would be required to enroll in the peer review program and undergo a peer review. This would limit a practitioner's ability to perform selected procedures engagements that they were previously performing under the consulting standards.

We appreciate your consideration of our comments. We are available to discuss any of these comments with you at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Williams".

Robert E. Williams, CPA
Chair, PICPA Accounting and Auditing Procedures Committee