October 10, 2018

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Attn: Sherry Hazel

COMMENTS ON PROPOSED STATEMENT ON STANDARDS FOR ATTESTATION ENGAGEMENTS
EXPOSURE DRAFT DATED JULY 11, 2018

While I am very much in favor of developing new services for the CPA profession, I am concerned that some of the proposed changes to the attestation standards that have been proposed in “Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification” (the “exposure draft”) are not in the public interest and may be detrimental to CPAs. In particular, I am very concerned with the changes to the agreed-upon procedures standard. Prior to retiring from public practice in 2017, I spent over 25 years working with various regulators, federal and state governmental agencies, and other organizations, including rating agencies, on the formulation of procedures that could be performed to satisfy their needs through agreed-upon procedures engagements. It was a very important process to arrive at procedures that were sufficient for the intended purpose and I am very concerned that the proposed revisions will not only not serve the public interest, but will run the risk of being more destructive to the profession’s reputation than increasing flexibility for new forms of engagements. Practitioners often underestimate their legal exposure for agreed-upon procedures (AUP) engagements, which in many cases are typically performed for very nominal fees. Having scenarios where no parties are responsible for the sufficiency of the procedures will significantly increase that exposure. My concerns are discussed in more detail below in response to the Request for Comment 5.

RESPONSES TO SPECIFIC QUESTIONS

Request for Comment 1—Proposed Changes That Affect All Attestation Engagements

With respect to the two significant changes highlighted in the forepart of the exposure draft, I have the following comments:

- **Elimination of a written assertion:** I am concerned that the elimination of a written assertion inadvertently weakens the representation letters that practitioners should obtain. Obtaining such assertions in a representation letter or, when the responsible party is not able to determine such assertion, a statement that the responsible party cannot make such an assertion and the reasons therefore, should be a requirement. In the latter situation, the practitioner’s report should clearly articulate that the responsible party is unable to make an assertion regarding the subject matter for intended users to consider in deciding what assurance to take from the presentation and the practitioner’s report thereon.
• **Addition of a statement in the practitioner's report regarding independence:** While I have no objection to adding a statement regarding independence and other ethical requirements, I do not believe that the proposed change is consistent with ISAE 3000, which requires more explicit references than those contained in the exposure draft. Most report examples in the exposure draft include an explanatory paragraph that merely states “We are independent and have fulfilled our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.” Such language is particularly vague and has little meaning for intended users of the report. Whereas ISAE 3000 requires an explicit reference to the IESBA Code. Interestingly, several limited assurance report examples on corporate responsibility/sustainability reports in proposed AT-C section 210 include a more explicit statement, namely, “We have complied with the independence and other ethical requirements of the Code of Professional Conduct established by the AICPA.” I recommend that the ASB revise the requirement to include a more explicit reference to AICPA standards and consider using a similar statement in all report examples to that used in Examples 5 and 6 in proposed AT-C section 210 (however, please see Comments on Specific Paragraphs section below for concerns regarding other paragraphs included in those two report examples).

**Request for Comment 2—Proposed Changes That Affect Examination and Review Engagements**

With respect to the three significant changes highlighted in the forepart of the exposure draft that affect examination and review engagements, I have the following comments:

• **New requirement for a written representation on whether the subject matter has been measured or evaluated against criteria:** I disagree with the premise that the practitioner may be the only one to measure or evaluate the subject matter against the criteria in the attestation engagement. If the responsible party is unable to do so, the practitioner should not be able to perform the attestation engagement. Further, how could a practitioner possibly perform a limited assurance engagement if someone hadn’t already performed the measurement or evaluation? That’s like saying the practitioner can half measure something and issue a limited assurance report. Further, I agree with the independence concerns raised by a number of the ASB members who dissented to exposure of these proposed changes to the attestation standards. While I understand the need to develop a service that was previously referred to as direct engagements, I don’t think that such concept belongs melded into the attestation standards in the manner done in the exposure draft.

• **New requirement for determining whether management has a reasonable basis for its assertion:** I believe it is appropriate for the practitioner to determine whether management has a reasonable basis for its assertion and believe the requirement and application guidance is appropriate.

• **Practitioner's ability to add information to practitioner's report beyond minimum report elements:** I believe that it is appropriate to permit the practitioner to include information beyond the minimum report elements; however, I find the application guidance to be too vague. For example, what details would be acceptable to say about the qualification and experience of the practitioner and others on the engagement or about findings of particular aspects of the engagement? I recommend that the application guidance discuss what types of information would be acceptable for the various topics identified in the cited paragraphs.
When the ASB Sustainability Task Force developed the attestation guide on sustainability information, they identified several other areas for which it would be helpful for the attestation standards to address. These included measurement uncertainty, management specialists, consistency and misstatements in previously issued information. It is unfortunate that such topics were not explored and addressed in the exposure draft given the frequency in which such topics are encountered by practitioners. Materiality is another topic that practitioners struggle with in performing attestation engagements and it would have been extremely helpful if the concepts of materiality had been explored further and additional application guidance provided in the exposure draft.

Request for Comment 3—Proposed Changes That Affect Only Examination Engagements

I have no objection to the proposed changes to AT-C section 205 for the practitioner’s response to situations in which requested written representations are not obtained.

Request for Comment 4—Proposed Changes That Affect Only Review Engagements

With respect to the four significant changes highlighted in the forefront of the exposure draft, I have the following comments:

- **Change in terminology from ‘review’ to ‘limited assurance’**: I believe that this change is unnecessary; however, I have no objection to the change being made. It will require education of the marketplace and possibly interaction by the AICPA with those regulatory bodies that currently receive review attestation reports.

- **Clarification of the type of procedures that may be performed**: As the extant AT-C section 210 permitted procedures other than inquiry and analytical procedures, the proposed changes merely clarify that and provide more helpful application guidance.

- **Inclusion of description of work performed in practitioner’s report**: While understandable, please see concerns in response to the questions below.

- **Permissibility of adverse conclusion**: While I believe it is acceptable to express an adverse conclusion in a limited assurance engagement, the report language will be key to adequately communicating that there could be other material misstatements that have not been detected by the limited assurance engagement. Accordingly, I believe that the guidance needs to be expanded to address that point and that the practitioner’s report needs to clearly articulate that there could be other material misstatements that might not be detected in the limited assurance engagement.

Are the illustrative reports clear and understandable with respect to the differences between a limited assurance engagement and an examination engagement?

No, the differences between a limited assurance engagement and an examination engagement are not sufficiently described in the illustrative reports. Perhaps a limited assurance report should include a description of the nature of procedures that would be performed in an examination but not in a limited assurance engagement to more clearly articulate the difference between a limited assurance and an examination engagement. Example 4 included statements in the bulleted list of procedures that the practitioner did not do, but there was no indication as to whether it was merely because a limited assurance engagement would not include such procedures. Further, there was no application guidance pertaining to including statements of procedures that were not performed; accordingly, application guidance needs to be added to address this.
What are the potential benefits or implications of requiring the practitioner to include a description of the procedures performed in a limited assurance engagement?

One of the implications of including a description of procedures performed in a limited assurance engagement is that intended users of the report will take more assurance from such description than they will from an examination report. This is the current case with sustainability reporting where users and responsible parties alike feel that the limited assurance report provides more useful information than a reasonable assurance report. Accordingly, this likely will cause intended users take more assurance than warranted by the engagement and inadvertently drive demand for limited assurance engagements over examinations. This then begs the question as to whether practitioner’s reports on examination engagements should include more descriptive procedures than currently contemplated so that intended users understand that an examination engagement encompasses more procedures than a limited assurance engagement (the proposed AT-C section 205 currently only provides application guidance on when the practitioner is requested to provide a description of procedures and results thereof (paragraph A94)).

Request for Comment 5—Proposed Changes That Affect Only Agreed-Upon Procedures Engagements

As discussed in my opening comments, I am concerned with the proposed changes to AT-C section 215 and, in particular, regarding (a) the elimination of any responsibility for the sufficiency of the procedures and (b) the permissibility of issuing general use agreed-upon procedures reports. My comments below elaborate further on these points in response to the specific questions asked in the exposure draft.

1. **Is the proposed expansion of the practitioner’s ability to perform procedures and report in a procedures-and-findings format beyond that provided by AT-C section 215 needed and in the public interest?**

I am concerned that the proposed revision to AT-C section 215, whereby no party would be required to accept responsibility for the sufficiency of the procedures is not in the public interest—someone has to be responsible for the sufficiency of the procedures for the intended purpose and, if not the engaging party or other party specifying the procedures, that responsibility would then have to fall on the practitioner. However, the proposed revisions fail to address that point. I am also concerned that the inclusion of a statement in the practitioner’s report that the engaging party acknowledged that the procedures performed are appropriate for the intended purpose of the engagement will confuse users of the report as to what that actually means. Users may believe that ‘appropriate for the intended purpose’ does, in fact, consider sufficiency as suitability would encompass sufficiency. Stating the converse, procedures that are insufficient for the intended purpose should not be considered appropriate.

While I can envision certain situations in which a “procedures-and-findings” format of a report would be appropriate, I believe that the conditions would have to be very different for those types of engagements than what is being proposed in the exposure draft. For example, an engagement in which the practitioner performs procedures to search for underreporting in connection with a contractual agreement may only need to obtain the agreement of the engaging party rather than the responsible party; however, such report should be restricted to the parties to the agreement.
2. Do the proposed revisions to AT-C section 215 appropriately address the objective of providing increased flexibility to the practitioner in performing and reporting on an agreed-upon procedures engagement while retaining the practitioner’s ability to perform an agreed-upon procedures engagement as contemplated in extant AT-C section 215?

I believe that the flexibility proposed will cause the extant form of agreed-upon procedures to disappear as engaging parties would move away from taking responsibility for the sufficiency of the procedures and lay that responsibility on the practitioner. I expect that even regulators would merely state what the objective is for procedures, leaving the practitioner to be responsible for determining the form and sufficiency of procedures to perform. However, the proposed changes fail to address the practitioner taking responsibility for the sufficiency of the procedures.

3. Do you agree with the proposed revision to AT-C section 215, whereby no party would be required to accept responsibility for the sufficiency of the procedures and, instead, the practitioner would be required to obtain the engaging party’s acknowledgment that the procedures performed are appropriate for the intended purpose of the engagement?

No, I disagree with the premise that it is acceptable to perform an engagement where no party takes responsibility for the sufficiency of the procedures. As discussed in my opening concerns and responses to some of the preceding questions, if neither the engaging party, the responsible party, nor the third party driving the need for the engagement (e.g., a regulatory body) take responsibility for the sufficiency of the procedures than that leaves it up to the practitioner to be responsible for their sufficiency.

It is inappropriate for no party to take responsibility for the sufficiency of the procedures, and attempts by the AICPA to go down that path is a very slippery slope for the professional reputation of CPAs. To further illustrate my point, take the report language in Example 3, in which an additional paragraph is included that discusses responsibility for the sufficiency of the procedures. In such example, it illustrates that the engaging party (and if applicable, other parties) is solely responsible for the sufficiency of the procedures and that the practitioner makes no representation regarding the sufficiency of the procedures. I question why all reports do not have some statement about responsibility for the sufficiency of the procedures. For example, if the ASB believes it is acceptable for no one to be responsible, then the report language should explicitly state that the practitioner has no responsibility for the sufficiency of the procedures and makes no representation regarding the sufficiency of the procedures either for the purpose for which the report has been requested or for any other purpose. Such a statement, however, is likely to be perceived rather negatively by report users if they read that no one is taking responsibility. As the exposure draft is currently drafted, report users are likely to be confused why some agreed-upon procedures reports include that particular paragraph but not others, and may justifiably assume that the practitioner has assumed the responsibility for sufficiency of the procedures when such a statement is not included.

Request for Comment 6—Prohibition on the Performance of a Limited Assurance Engagement on Certain Subject Matter

While the extant standards permitted procedures to be performed other than analytical procedures and inquiries, under the proposed changes to the attestation standards for a limited assurance engagement, it is now a little more difficult to argue that a limited assurance engagement could not be applied to either internal control or compliance, or even prospective financial. However, given the nature of
prospective financial information, the practitioner's attestation risk in a limited assurance engagement would seemingly be too high to warrant performance of such an engagement. Practitioners could perform the same procedures as for an examination of internal control or compliance, but to a lesser extent for a limited assurance engagement. The difficulty would be in adequately describing the procedures in the practitioner's report so that users of the report can clearly understand that it is less than an examination engagement and not take more assurance from the report than warranted by the engagement.

Request for Comment 7—Effective Date

If significant changes are made to the extant attestation standards, the AICPA should provide at least a year for (1) practitioners to receive proper training on the revisions and for firms to update their guidance and (2) the AICPA to educate the marketplace regarding the substantial revisions to attestation services. Further, I believe it is appropriate to prohibit early implementation in order to limit marketplace confusion.

COMMENTS ON SPECIFIC PARAGRAPHS

Proposed AT-C Section 105

Appropriate Party (Paragraph .11)

Proposed AT-C section 105 introduces the concept of 'appropriate party' and states that it refers to "the responsible party, the engaging party, or both, as appropriate." This multitude of possibilities makes it difficult to comprehend which party is actually being referred to throughout all proposed sections and, accordingly, may trip practitioners up in attempting to comply with certain requirements (e.g., they may believe that it pertains to the engaging party when they should have applied the requirement to both the engaging party and the responsible party).

Proposed AT-C Section 205

Written Representations (Paragraph .A67)

I recommend adding a representation that the engaging party is not aware of any deficiencies in internal control.

Content of Practitioner's Report (Paragraph .A89)

Paragraph .A89 states that the practitioner may include a statement in the report that the responsible party did not measure or evaluate the subject matter in accordance with the criteria but fails to provide any guidance as to what other party performed such measurement or evaluation. As discussed earlier, the practitioner should not assume such responsibility because of potential independence issues that such initial measurement or evaluation could create under existing independence standards.
Reference to the Practitioner’s Specialist (Paragraphs .66 and .80)

These paragraphs seem to conflict with each other; paragraph .66 states that “The practitioner should not refer to the work of a practitioner’s specialist in the practitioner’s report containing a modified opinion” while paragraph .80 makes an exception to that requirement in stating that “When the report is modified, reference to an external specialist is permitted when such reference is relevant to an understanding of the modification”. Such conflicting language needs to be addressed.

Proposed AT-C Section 210

Content of Practitioner’s Report (Paragraph .A76)

Similar to proposed AT-C section 205, paragraph .A76 of proposed AT-C section 210 states that the practitioner may include a statement in the report that the responsible party did not measure or evaluate the subject matter in accordance with the criteria but fails to provide any guidance as to what other party performed such measurement or evaluation. As discussed earlier, the practitioner should not assume such responsibility because of potential independence issues that such initial measurement or evaluation could create. Further, putting the independence issue aside, it is illogical to think that the practitioner can perform a limited assurance engagement on subject matter that has not been measured or evaluated initially as the procedures that would need to be performed to measure or evaluate the subject matter presumably would have to be performed at a reasonable assurance level.

Reference to the Practitioner’s Specialist (Paragraphs .50 and .58)

Similar to my comments on making reference to the practitioner’s specialist in proposed AT-C section 205, paragraphs .50 and .58 of AT-C section 210 seem to conflict with each other. Such conflicting language needs to be addressed. Further, application guidance also should be added about whether the description of procedures should or should not mention the practitioner’s interaction with any practitioner’s specialists (internal or external).

Illustrative Practitioner’s Limited Assurance Reports (Paragraph .A111)

Examples 4-6 on GHG emissions and sustainability reports contain a number of inherent limitations paragraphs that are inconsistent with the explanatory paragraphs in the AICPA Guide: Attestation Engagements on Sustainability Information (Including Greenhouse Gas Emissions Information) (the “Guide”). I believe that these paragraphs should be replaced with the paragraphs that have been illustrated in the Guide. The paragraphs to be replaced are as follows:

- Example 4: 5th paragraph (“As discussed in Note 1....”)
- Examples 5 and 6: 2nd paragraph (“The nature of non-financial information....)

Examples 5 and 6 include a paragraph regarding the application of quality control standards. While such illustrative language was taken from an appendix that was subsequently added to the Guide, I believe such language was flawed as it made an open-ended statement that the practitioners “maintain a comprehensive system of quality control” rather than the practitioners “maintained a comprehensive system of quality control.” Additionally, Examples 5 and 6 contain a number of paragraph headings, which is permissible under the application guidance; however, it would seem that the entire report
examples should contain appropriate headings throughout such examples and that headnotes should be added to Examples 5 and 6 to state that such examples illustrate the manner in which headings might be used, with a cross-reference back to the applicable application guidance paragraphs.

Example 6 uses “…” to finish sentences with respect to the basis for the adverse conclusion. Consistent with existing standards and the other examples in the exposure draft, they should be replaced with instructions of what should be included in those paragraphs if the ASB is unable to develop example language; further, appropriate cross-references back to the applicable paragraphs in proposed AT-C section 210 would be helpful.

**Proposed AT-C Section 215**

**Acknowledgement Regarding Appropriateness of the Procedures (Paragraphs .03 and .A13)**

The requirement to obtain an acknowledgement regarding the appropriateness of the procedures is a key new concept yet there is no application guidance regarding exactly what this really means; accordingly, it leaves considerable room for widely varying interpretations. The application guidance regarding obtaining such acknowledgement from other parties when the practitioner decides to restrict the use of the practitioner’s report begs the question as to why such acknowledgements are not obtained if the report is unrestricted.

**Written Representations (Paragraphs .25, and .A36-.A38)**

Introduction of the term ‘appropriate party’ makes it considerably more difficult to understand the requirements regarding obtaining written representations; accordingly, additional application guidance is necessary. Additionally, it is unclear what the practitioner achieves from obtaining a representation from the engaging party that another party is responsible for the subject matter.

**Content of Practitioner’s Agreed-upon Procedures Report, Including Alert (Paragraphs .32-.33, .A45 and .A55)**

The exposure draft introduces several new descriptive terms that would be permitted in the title of the practitioner’s report, namely ‘specified’ and ‘selected’, to describe the nature of procedures. Use of such terms are only likely to cause confusion for users as to whether they are different from an agreed-upon procedures engagement and, if so, how they differ.

Extant AT-C section 215 permitted the report to include a reference to a list of procedures rather than including the list itself. The exposure draft includes the same language; however, if the ASB goes down the path of permitting general use reports, referring to a list of procedures instead of including the procedures disadvantages those report users who are not likely to be familiar with where such information is publicly available and requires them to retrieve it to fully comprehend the report. I believe that such reference was permitted in the extant standards as it was assumed that the users to whom the report was restricted would have such procedures readily available to them. Application guidance and illustrative report language should be added to illustrate how to clearly direct intended users to where the list of procedures can be found. Further, some lists may not be publicly available; however, no requirement or application guidance was provided that cautioned the practitioner as to whether it would be appropriate to issue a general use report in such circumstances. Accordingly, if the
ASB goes down the path of permitting general use reports, I believe that a fourth circumstance should be added to paragraph .33 to require an alert restricting use to those parties who have the list of procedures when such list is not publicly available.

Knowledge of Matters Outside Procedures (Paragraphs .36 and .A65-.A66)

The exposure draft requires the practitioner to “take appropriate action, including determining whether the practitioner’s report should be revised to disclose the matter”; whereas the extant standards require the practitioner to include the matter in the practitioner’s report. No application guidance is provided regarding what appropriate action might entail; rather, the only guidance relates to inclusion of the matter in the practitioner’s report. What does the ASB intend the practitioner to do? Should the practitioner perform procedures regarding the matter to assess the effect on the engagement and, if so, shouldn’t that be clearly stated?

* * * *

I also have listed some editorial matters in the accompanying appendix for the ASB’s consideration. While I have not read through the proposed conforming changes made to other AT-C sections, I expect that many of my comments above, particularly regarding written representations and the need for them to contain assertions about the subject matter, would apply to those other sections.

Please contact me at 203-834-9986 or beth.schneider.usa@gmail.com if you have any questions or wish to discuss any of these points further.

Yours truly,

[Signature]

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EDITORIAL COMMENTS

Proposed AT-C section 205

Illustrative Practitioner’s Examination Reports (Paragraph .A127)

Example 4 dropped some language in the first paragraph of the report to illustrate the various examples of subject matter and only refers to the number of widgets sold. I recommend that the omitted text be added back.

Example 6 contains some italicized explanations in the middle of the illustrative report. It would appear that such language should have been included in the headnote to the example rather than within the report language itself.

Proposed AT-C section 210

Paragraph .04: The definitions should be placed in alphabetical order.

Paragraph .A73: It does not appear that the reference to paragraph .A65 is the correct reference.

Paragraph .A111: Examples 4-6 state that “XYZ Company is responsible for the preparation...” rather than “XYZ Company’s management” [emphasis added] to be consistent with all other report examples illustrated.