



Agenda Item 6

Discussion Memorandum: Direct Review Engagements

Objective of Agenda Item

To discuss concepts associated with proposed revisions to the attestation standards to

- Provide for direct review engagements
- Eliminate the prohibition on reviews of prospective financial information; internal control; and compliance with requirements of specified laws, regulations, rules, contracts, or grants.

Attestation Standards Task Force

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The Task Force is staffed by Judith Sherinsky and Mike Glynn.

Background of Project to Revise the Standards for Examinations and Attestation Reviews

At its meeting in July 2020, the ASB voted to issue a Statement on Standards for Attestation Engagements (SSAE) that revises AT-C sections 105, *Concepts Common to All Attestation Engagements*, and 205, *Examination Engagements*, and creates new AT-C section 206, *Direct Examination Engagements*. That SSAE was issued as SSAE No. 21, *Direct Examination Engagements*, in October 2020.

Discussion Memorandum: Direct Review Engagements
ASB Meeting, January 11-14, 2021

At its meeting in October 2020, the ASB voted to issue a new SSAE that revises AT-C section 210, *Review Engagements*. That SSAE was issued as SSAE No. 22, *Review Engagements*, in December 2020. Although SSAE No. 22 significantly revised AT-C section 210 to

- describe the types of procedures, in addition to inquiry and analytical procedures, that a practitioner may perform in a review engagement;
- require that the practitioner's report include an informative summary of the work performed as a basis for the practitioner's conclusion; and
- permit the expression of an adverse conclusion;

it did not provide for direct review engagements.

The issuance of SSAE Nos. 21 and 22 was the result of a multi-year process that included the issuance of an exposure draft *Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification (ED)*¹ in July 2018 and SSAE No. 19, *Agreed-Upon Procedures*, in December 2019.

Since issuance of the ED, the Task Force has presented to the ASB numerous proposals and drafts, including revisions to AT-C section 210, to provide for direct engagements. At its October 2019 meeting, the ASB concluded that extant AT-C sections 205 and 210 should remain substantially unchanged to retain the practitioner's option to perform traditional assertion-based examination and review engagements and that a new AT-C section should be developed to provide for direct examination and review engagements. Subsequently, at its meeting in January 2020, some ASB members questioned the feasibility of a direct review engagement because of a concern that appropriate review procedures, primarily consisting of analytical procedures and inquiries, may be inadequate to measure or evaluate the underlying subject matter against the criteria in the absence of a measurement or evaluation by the responsible party. After the January 2020 meeting, due to the concerns raised by some ASB members, the Task Force decided to defer revisions to AT-C section 210 until after the issuance of SSAE No. 21.

The following are the issues associated with a potential direct review engagement, including the Task Force's proposed disposition of these issues.

Is there an adequate rationale for providing for a direct examination engagement and not providing for a direct review engagement?

Paragraph .11 of AT-C section 210 requires that the practitioner request from the responsible party a written assertion about the measurement or evaluation of the underlying subject matter against the criteria and use professional judgment in determining whether management has a reasonable basis for making its assertion. When the engaging party is the responsible party and refuses to provide a written assertion, paragraph .61 of AT-C section 210 requires the practitioner to withdraw from the engagement, when withdrawal is possible under applicable law or regulation.

¹ The exposure draft is available at <https://www.aicpa.org/content/dam/aicpa/research/exposedrafts/accountingandauditing/downloadabledocuments/20180711/20180711a-ed-ssae-18-revisions.pdf>

When the engaging party is not the responsible party, and the responsible party refuses to provide a written assertion, the practitioner need not withdraw from the engagement. In that case, paragraph .62 of AT-C section 210 requires the practitioner to disclose that refusal in the practitioner's report and restrict the use of the report to the engaging party.

These requirements are consistent with the requirements for an assertion-based examination engagement performed in accordance with AT-C section 205, *Assertion-Based Examination Engagements*. However, AT-C section 206, *Direct Examination Engagements*, enables entities for which the responsible party does not provide an assertion about whether the underlying subject matter is in accordance with the criteria to undergo a direct examination engagement, thus providing the public with confidence in information about the underlying subject matter. The responsible party is always required to acknowledge its responsibility for the underlying subject matter.

Currently, although an entity can engage a practitioner to perform an examination engagement without the responsible party providing an assertion about whether the underlying subject matter is in accordance with the criteria, the attestation standards do not provide for a review engagement in those circumstances. The Task Force does not believe there is a satisfactory rationale for this difference. Although the procedures performed in a direct examination and direct review engagement would differ, the practitioner's process for measuring or evaluating the underlying subject matter against the criteria would be the same.

The Task Force acknowledges that, other than engagements to review sustainability information, AT-C section 210 is not commonly used. However, the SSAE No. 22 requirement that the practitioner's review report include an informative summary of the work performed as a basis for the practitioner's conclusion may result in an increase in the demand for an attestation review service – either an assertion-based or a direct review service.

ASB Consideration

Is there a satisfactory rationale for not providing for direct review engagements?

Procedures in a potential direct review engagement

As previously stated, prior to the issuance of SSAE Nos. 21 and 22, some ASB members questioned the feasibility of a direct review engagement because of a concern that traditional review procedures, primarily consisting of analytical procedures and inquiries, may be inadequate to measure or evaluate the underlying subject matter against criteria in the absence of a measurement or evaluation by the responsible party. However, SSAE No. 22 clarifies that a practitioner may perform procedures other than or in addition to inquiry and analytical procedures in a review engagement. Such procedures, although less in extent, are of the same nature to those performed in an examination engagement. The objective of a review engagement is to obtain limited assurance as opposed to the objective in an examination engagement of obtaining reasonable assurance. If a practitioner is able to obtain reasonable assurance in a direct examination engagement, the Task Force believes that there is no reason why a practitioner cannot obtain limited assurance with respect to the same subject matter.

ASB Consideration

The ASB is asked to consider whether procedures can be designed and performed to obtain limited assurance when the practitioner rather than the responsible party measures or evaluates the underlying subject matter against criteria.

Prohibition on the performance of a review engagement on certain subject matter

Paragraph .07 of AT-C section 210 reads as follows:

A practitioner should not perform a review of

- a. prospective financial information,
- b. internal control, or
- c. compliance with requirements of specified laws, regulations, rules, contracts, or grants.

Although prohibited from performing a review of the aforementioned subject matters, a practitioner is permitted to examine those subject matters. The prohibition of a review engagement on such subject matters dates to the late 1990s. At that time, the ASB concluded that a review engagement should not be performed because the performance of analytical procedures and inquiries would not provide sufficient assurance to allow a practitioner to report on the subject matter. However, as previously discussed, SSAE No. 22 clarifies that a practitioner may perform procedures other than or in addition to inquiry and analytical procedures in a review engagement and that such procedures, while less in extent, are the same nature as those performed in an examination engagement. While the argument was that analytical procedures could not be performed on internal control or compliance, the prohibition on a review of prospective financial information was primarily a risk management issue.

The ED included a specific request for comment regarding whether AT-C section 210 should continue to prohibit the practitioner from performing a review engagement on the subject matters. There was no support from the 39 commenters for removing the prohibition.

However, certain Task Force members believe that the ASB should reconsider the appropriateness of the prohibition of performing a review engagement on the aforementioned subject matters.

If the ASB is unwilling to remove the prohibitions in full, certain Task Force members believe that clarification on the prohibition on the performance of a review engagement on internal control would be in the public interest. Certain practitioners interpret paragraph .07 of AT-C section 210 as prohibiting a review on “the design or operating effectiveness of internal control” while others interpret the prohibition to include any subject matter that relates to controls, including for example a factual description of the process or the controls are operating as described.

ASB Consideration

The ASB is asked to consider whether a practitioner should continue to be prohibited from performing a review on (a) prospective financial information; (b) internal control; or (c) compliance with requirements of specified laws, regulations, rules, contracts, or grants. If the Board concludes that some or all of the prohibitions should be retained, the Board is asked to consider whether paragraph .07 should be clarified so that the prohibition on a review of internal control only runs to “the design or operating effectiveness of internal control” while permitting a review of a factual description of the process or that the controls operated as described.

Timeline for Issuance of Standard

The Task Force proposes the following timeline for development and issuance of a proposed SSAE that would result in practitioners being able to perform direct review engagements:

- May 2021 - First draft of proposed standard, *Direct Review Engagements* to be presented to the ASB
- July 2021 - Second draft of proposed standard, *Direct Review Engagements* to be presented to the ASB
- October 2021 - Final draft of proposed standard presented to the ASB with a request that the ASB consider voting to issue as a final standard

No Additional Agenda Materials Presented