



## Agenda Item 3

### Consideration of Proposed Revisions to AT-C sections 105 and 210

#### Discussion Memo

**Objective:** To discuss the drafts of proposed revised AT-C sections 105 and 210 and provide feedback to the Auditing Standards Board's Direct Engagements Working Group. The objective of the proposed standards are to

- enable a practitioner to report on subject matter without having to obtain a written assertion from the responsible party
- more closely align with International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

#### Background

Under the extant attestation standards, in an examination or review engagement, a practitioner who is unable to obtain a written assertion from the responsible party is required to withdraw from the engagement, unless the engaging party is not the responsible party. The ASB has undertaken a project to create a set of attestation standards that would permit a practitioner to examine or review subject matter when the responsible party has not measured or evaluated the subject matter and does not provide an assertion. This project is deemed to be important because it provides practitioners with greater flexibility to serve clients who are unable, or do not have the competencies, to measure or evaluate specified subject matter against criteria.

Initially, the ASB recommended that a separate set of attestation standards be developed to provide for examination and review engagements in which the practitioner would not need to obtain an assertion from the responsible party. International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, provides for such engagements and identifies them as *direct engagements*. ISAE 3000 does not contain requirements and application guidance tailored to these engagements, but instead instructs the practitioner to adapt and supplement the requirements and application guidance in ISAE 3000 as necessary in the engagement circumstances.

In developing the two sets of attestation standards (one for assertion-based engagements and one for direct engagements) the Direct Engagements Working Group concluded that it would be better to develop a single set of attestation standards that would provide for both assertion-based and direct engagements (rather than two sets of attestation standards for which the only difference would be the requirement to obtain an assertion). The ASB agreed with this direction and further asked the working group to take this opportunity to harmonize the AT-C sections with ISAE 3000.

**Proposed Changes to AT-C Sections 105, *Concepts Common to All Attestation Engagements* and 210, *Review Engagements***

The revised drafts of AT-C sections 105 and 210 retain most of the requirements that are included in the extant AT-C sections, but have been harmonized in most respects with ISAE 3000. The following is a summary of the changes introduced in the revised drafts of AT-C sections 105 and 210:

- Without using the term *direct engagement*, AT-C section 210 has been amended to allow for either an engagement in which the responsible party has measured or evaluated the subject matter against the criteria and provided the practitioner with an assertion, or an engagement in which the responsible party has not provided an assertion
- ISAE 3000 uses the term *limited assurance engagements* rather than *review engagements*. That terminology has been adopted throughout the revised AT-C sections; AT-C section 210 is now titled *Limited Assurance Engagements*.
- Extant AT-C section 210 is premised on inquiries and analytical procedures, an approach that may not be suitable for all subject matters. It should be noted that paragraph A24 of AT-C section 210 provides flexibility with regard to the types of procedures a practitioner may perform in circumstances in which inquiry and analytical procedures are not expected to provide sufficient appropriate review evidence, or when the subject matter does not lend itself to such procedures. However, by more closely harmonizing with the limited assurance provisions of ISAE 3000, the revisions to AT-C section 210 more explicitly describe the types of procedures a practitioner may perform in a limited assurance engagement, which are much the same as the procedures a practitioner performs in an examination engagement, except that the nature, timing, and extent of those procedures are tailored to a limited assurance engagement
- Consistent with ISAE 3000, application guidance has been added to AT-C section 210 to indicate that a practitioner may issue a report that contains only the minimum required reporting elements, or may issue a report that expands on or supplements those elements, for example, a report that contains detail about the terms of the engagement, the applicable criteria being used, findings relating to particular aspects of the engagement, details of the qualifications and experience of the practitioner and others involved with the engagement, a description of the procedures the practitioner performed, and, in some cases, recommendations. Although nothing in the extant attestation standards precludes a practitioner from adding such information to any report, there is no guidance in the extant attestation standards indicating that it is permissible to do so
- Other changes have been made throughout the AT-C sections to remind practitioners of the following:
  - Even if an assertion is not provided, the responsible party needs to accept and acknowledge responsibility for the subject matter,

- Even if an assertion is not provided, sufficient appropriate evidence is required
- If the practitioner performs non-attest services, the practitioner needs to make sure that safeguards are in place in accordance with the independence standards

Although a number of changes have been made to harmonize the attestation standards with ISAE 3000, the following major differences remain:

- The representation letter requirements in AT-C section 210 are more prescriptive than those in ISAE 3000. The Working Group prefers that these requirements remain more prescriptive. Does the ARSC agree?
- ISAE 3000 does not preclude a practitioner from performing a limited assurance engagement on certain subject matters, as does paragraph 7 of AT-C section 210 shown below:
  - .07 A practitioner should not perform a review of (Ref: par. .A2)
    - a. prospective financial information,
    - b. internal control, or
    - c. compliance with requirements of specified laws, regulations, rules, contracts, or grants.

Although the ARSC has questioned why these prohibitions remain, the Working Group believes that the prohibitions in extant AT-C section 210 are still relevant and recommends that they be retained in revised AT-C section 210. At its meeting January 16-19, 2018, the ASB will be asked whether it agrees with the ARSC or the Working Group.

- ISAE 3000 requires that the practitioner’s limited assurance report include an “informative summary of the work performed as a basis for the practitioner’s conclusion.” ISAE 3000 states that “an appreciation of the nature, timing, and extent of procedures performed is essential to understanding the practitioner’s conclusion.” The Working Group was uncomfortable with this level of detail and has proposed that the disclosure of the procedures performed be optional. Does the ARSC agree with the Working Group?

The Working Group has not had any detailed discussion of the changes to the subject matter AT-C sections.

**Agenda Items Presented:**

- Item 3A AT-C section 105, *Concepts Common to All Attestation Engagements* (Marked from extant)

- Item 3B AT-C section 210, *Limited Assurance Engagements* (Marked from extant with highlighting to show changes from the draft presented at the October 2017 ASB meeting – certain of those changes were recommended by the ARSC at its meeting in November 2017)

**Direct Engagements Working Group:**

Cathy Schweigel, Chair

James Dalkin assisted by Matthew Zaun

Marne Doman

Andy Mintzer

Dan Montgomery

Rick Reisig

Judith Sherinsky and Mike Glynn staff the Working Group and Mike Santay (Chair of the ASB); Mike Fleming (Chair of ARSC); and Denny Ard (Chair of the Selected Procedures Task Force) are observers to the Working Group.