

October 9, 2018

Ms. Sherry Hazel  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036

By e-mail: [Sherry.Hazel@aicpa-cima.com](mailto:Sherry.Hazel@aicpa-cima.com)


**Re: Proposed Statement on Standards for Attestation Engagements—*Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification***  
**July 11, 2018**

Dear Ms. Hazel:

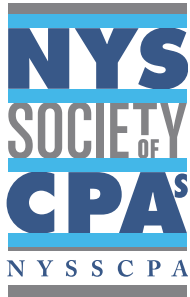
The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 26,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

The NYSSCPA's Accounting and Review Services and Auditing Standards Committees deliberated the proposed standards update and prepared the attached comments. If you would like additional discussion with us, please contact Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

  
NYSSCPA  
Jan C. Herringer  
President

Attachment



**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON**

**PROPOSED STATEMENT ON STANDARDS FOR ATTESTATION  
ENGAGEMENTS—*REVISIONS TO STATEMENT ON STANDARDS FOR  
ATTESTATION ENGAGEMENTS NO. 18, ATTESTATION STANDARDS:  
CLARIFICATION AND RECODIFICATION*  
JULY 11, 2018**

**October 9, 2018**

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Ernest J. Markezin

# **New York State Society of Certified Public Accountants**

## **Comments on**

### **Proposed Statement on Standards for Attestation Engagements—*Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification*** **July 11, 2018**

The New York State Society of Certified Public Accountants (the Society) appreciates the opportunity to comment on the AICPA’s Auditing Standards Board (ASB) exposure draft, Proposed Statement on Standards for Attestation Engagements— *Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification*.

The Society appreciates the hard work and diligence of the ASB, the Accounting and Review Services Committee (ARSC), and the Attestation Standards Task Force in developing these proposed revisions. We also recognize the inclusion of the comments from the five ASB members who chose to dissent to the proposed revisions. However, we will offer no response to the dissents in this letter.

We are cognizant of the differing opinions this exposure draft has elicited, both in favor and opposed. We ourselves have struggled with these differing opinions during the drafting process of this response. While one committee sees the potential the proposed changes can have on the performance of attestation engagements, particularly, agreed-upon procedures engagements, another committee views the time spent developing this exposure draft as wholly unnecessary to the continuing development of the attestation standards. We will discuss the concerns raised by both sides so that the ASB can make the best, most informed decisions possible.

The Society has used the term “limited assurance engagement” throughout this letter to differentiate between review engagements conducted in accordance with Statements on Standards for Accounting and Review Services (SSARS) and those conducted in accordance with the Statements on Standards for Attestation Engagements (SSAEs or the attestation standards) even though this terminology has not been accepted into the professional literature and is only proposed in this exposure draft.

Our comments are divided into the following three sections:

- General comments on the exposure draft;
- Responses to specific requests for comment; and
- Summary

## **General Comments**

Historically, the Society has supported convergence with international standards when convergence does not create additional litigation risk to practitioners in the United States (US). While we do not see the same urgency for convergence of the attestation standards as exists for other standards (for example, auditing standards or ethics) we recognize that attestation engagements, like any other engagement performed in the US today, have the potential to be conducted on information sourced from entities anywhere in the world. Accordingly, the Society will support the ASB's reasonable efforts to converge the SSAEs with the International Standard on Assurance Engagements ("ISAE") 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, provided that the ASB continues to consider the unique litigious environment of the US in the standard-setting process.

Some Society members are concerned that the proposed expansion of the scope of available services as outlined in the proposed revisions to the agreed-upon procedures section is motivated more by a desire for practitioner revenue enhancement than as a response to a genuine need within the marketplace. Conversely, members in smaller public accounting firms, with less sophisticated clients, understand that the proposed revisions to agreed-upon procedures are an overdue relief from endless revisions to procedures that were perhaps ill-conceived by the engaging party from the onset.

We found the proposed revisions to the attestation standards in the exposure draft were clear and understandable.

## **Responses to Specific Requests for Comment**

### ***Proposed Changes That Affect All Attestation Engagements***

With respect to the new requirement to add a statement to the practitioner's report that indicates that the practitioner is independent and has fulfilled his or her ethical requirements relating to the engagement, the Society is in favor of this new requirement. Adding this requirement provides greater consistency of reporting between the various attest and assurance standards, as this requirement has recently been proposed in the ASB Proposed Statements on Auditing Standards, *Auditor Reporting and Proposed Amendments – Addressing Disclosures in the Audit of Financial Statements*. The inclusion of the proposed language is important because it stresses not only the practitioner's independence but also highlights, for both users of the report and practitioners, the practitioner's compliance with all the relevant ethical standards, which include, but are not limited to, integrity and objectivity (ET 1.100), general standards (ET 1.300) and compliance with standards (ET 1.310).

Finally, to continue to improve this reporting consistency across engagement types regarding independence, we suggest that the ARSC also consider adding this proposed language to their review reports and to those compilation reports in which the accountant's independence is not impaired. For those compilation reports where the accountant's independence is impaired, we suggest that the ARSC adopt modified language that addresses the accountant's compliance with the other ethical requirements.

We were unable to reach a consensus on the deletion of the requirement to obtain a written assertion from the responsible party when the practitioner is performing an examination or limited assurance engagement on the subject matter. We did agree that the requirement to obtain such a representation when the practitioner is asked to report on an assertion about the subject matter should be maintained. Some of our members are of the opinion that the deletion of the requirement to obtain a written assertion would significantly dilute the efficacy of the attestation service, believing that whatever the practitioner is attesting to must be the assertion of the responsible party.

Other members believe the removal of the requirement to obtain a written assertion from the responsible party when the practitioner is reporting on the subject matter is acceptable. These members are of the opinion that even in an audit of financial statements, the auditor is not required to obtain written assertions from management regarding every assertion implied in the financial statements under audit. These members, therefore, believe that requiring such written assertions in an engagement performed on subject matter in accordance with the attestation standards is inconsistent with other attest engagements.

### ***Proposed Changes That Affect Examination and Review Engagements***

The ASB has specifically requested comments on paragraph .A81 of proposed AT-C Section 205, *Examination Engagements*, and paragraph .A68 of proposed AT-C Section 210, *Limited Assurance Engagements*. The Society supports the proposed provisions, cited above, which would enable a report that expands on or supplements the minimum required report elements to include information or explanations that are not intended to, and do not appear to, affect the practitioner's opinion or conclusion but that may address the informational needs of the intended users. Such additional information or explanatory language should not be misleading or unsupported by the evidence.

The Society is of the opinion that the application paragraphs, referred to above, provide appropriate guidance as to the types of matters the practitioner might include in his or her report. However, additional guidance should be added, either in the application material or to the illustrative reports, to provide an example of what sort of phrasing the practitioner should adopt to clarify that the additional information is not intended to detract from the opinion. Such sample language would be helpful to practitioners, especially those of our members who are from smaller firms without the same resources large firms have for crafting such language.

Furthermore, the addition of paragraphs .A81 to AT-C 205 and .A68 to AT-C 210 will be helpful to most practitioners. Although the extant standards do not preclude the addition of such supplemental or explanatory information, most practitioners would not think to include such information without the proposed application paragraphs. There may be many instances when additional explanatory information would be useful to the users of the report. Therefore, the addition of the application paragraphs referenced above will assist practitioners in identifying when such circumstances might exist.

Finally, the inclusion of these application paragraphs may result in reports that are more informative to their users as more practitioners include additional information about the conduct of the engagement and other engagement specific matters. More informative and transparent

reports are the current trend in attest and assurance reporting as evidenced by the inclusion, or proposed inclusion, of key or critical audit matters in both international and US audit reports.

With respect to the proposed requirement for the practitioner to determine whether management has a reasonable basis for its assertion when management provides an assertion, the addition of this requirement enhances the value of the examination or limited assurance engagement. Performing an attestation engagement on an assertion the practitioner believes is unreasonable would appear to be contrary to the public interest. Therefore, this determination should be made as early as is possible in the engagement.

Paragraph 205.50f of proposed AT-C 205, *Examination Engagements*, and paragraph 210.34f of proposed AT-C 210, *Limited Assurance Engagements*, read, “State whether a party other than the practitioner has measured or evaluated the subject matter against the criteria, and, if another party has measured or evaluated the subject matter, the results of that measurement or evaluation.” The Society agrees that a representation should be obtained from the appropriate party stating who has measured and evaluated the subject matter against the criteria as outlined in proposed AT-C 205.50f and AT-C 210.34f and the related application guidance. In those situations, when the practitioner is asked to report on the responsible party’s assertion or to request an assertion, we are not opposed to such a statement being made in the practitioner’s report.

#### ***Proposed Changes that Affect Only Examination Engagements***

The Society was unable to reach consensus as to whether the responsible party’s failure to provide all of the requested written representations constitutes an automatic scope limitation resulting in a modified opinion. Some of our members are of the opinion that the inability to obtain one or more representations from the responsible party precludes the issuance of an unmodified opinion. These members assert that in addition to a report modification, the practitioner should also be given the option of withdrawing from the engagement if the matter cannot be resolved satisfactorily. Other members agree that the circumstances of the responsible party’s refusal to provide one or more written representations and the amount and quality of other available evidence should be considered when determining any possible effect on the opinion in the practitioner’s report.

The Society was able to agree that any refusal by the engaging party to provide one or more written representations that cannot be resolved should preclude the issuance of an unmodified opinion.

#### ***Proposed Changes That Affect Only Review Engagements***

The Society supports the change of terminology from “review engagement” to “limited assurance engagement” with respect to engagements to obtain limited assurance under the attestation standards. We recognize that this is the terminology used in ISAE 3000 (Revised) and do not object to the adoption of that terminology in the attestation standards. The change in terminology will lead to greater clarity in differentiating between engagements to obtain limited assurance performed in accordance with SSARS, and those performed in accordance with the attestation standards; and is analogous to the terminology used to differentiate audit engagements



performed in accordance with generally accepted auditing standards and examination engagements performed in accordance with the attestation standards.

The proposed changes to the requirements of AT-C 210, *Limited Assurance Engagements*, and the related application material are clear and understandable. We approve of the specification of the types of procedures that the practitioner may perform in order to obtain limited assurance regarding the subject matter and concur with the relocation of extant paragraph .17 to the application material. This paragraph was never a mandatory or a presumptively mandatory requirement under the extant standards as evidenced by the use of the verb “may” and should not have been included in the requirements section of the extant standards. The procedures performed by the practitioner in a limited assurance engagement should be tailored to the nature of the subject matter or the assertion thereon and the amount of limited assurance evidence required for the practitioner to obtain limited assurance. Because the nature of the subject matter can vary, the procedures should also have a degree of flexibility and recognize that analytical procedures cannot necessarily be applied to all types of subject matter.

Some of our members have raised the question of whether a firm’s litigation risk may increase when “examination-type” procedures are applied in engagements performed at lower levels of service. They believe that as more procedures are performed (and disclosed in the practitioner’s report), the different levels of service become blurred resulting in possible user confusion. Other members, however, have the view that litigation risk is primarily a function of the engagement and not of the procedures performed. They consider that it is the practitioner’s responsibility to perform whatever procedures he or she deems necessary to obtain limited assurance. Accordingly, it is the practitioner’s responsibility to reduce his or her litigation risk through appropriate risk management procedures including, but not limited to, obtaining an appropriately tailored engagement letter. We recognize that practice management issues are beyond the purview of the ASB’s standard-setting process and are the responsibility of the practitioner.

Rather than creating user confusion, we consider the addition of a description of the procedures performed by the practitioner in the conduct of the limited assurance engagement in the report beneficial to the user in understanding what the practitioner did to obtain limited assurance on the subject matter or assertion. However, we suggest that the placement of the paragraph describing the procedures performed precede the paragraph on independence.

The third paragraph in the limited assurance report describes the general nature of the procedures performed, and we think the description of the specific procedures should follow immediately after that general paragraph. The inclusion of the independence paragraph between the two disrupts the flow of the report. Furthermore, the inclusion of the procedures in the limited assurance report is analogous to the statement in a SSARS review that a review consists primarily of analytical procedures applied to management’s financial data and inquiries of company management. As discussed above, not all limited assurance engagements will lend themselves to the performance of analytical procedures. Therefore, the inclusion of a description of the procedures performed will be beneficial to the user in understanding what the practitioner did to arrive at the conclusion expressed in the report.

Finally, the Society concurs with the ASB that the practitioner should be able to express an adverse conclusion when the practitioner concludes, after having obtained sufficient appropriate limited assurance evidence, that the subject matter is materially and pervasively misstated. Under the extant standards, the practitioner would have to withdraw in such a situation. We recognize that there is a long tradition stretching back 40 years that precludes a practitioner from issuing an adverse review conclusion. However, we also recognize that in both SSARS reviews and limited assurance engagements, there might be circumstances where material and pervasive misstatements exist that management or the responsible party is unable or unwilling to correct. We do not believe that the practitioner's withdrawal from the engagement in such circumstances serves the public interest.

From a practical standpoint, we recognize that if the practitioner withdraws because of the existence of a material and pervasive misstatement in the subject matter, the engaging party may very well "shop" the engagement around for an accountant who might issue an unmodified report or a report that is qualified only for the material misstatement. Certainly, this is not a view of our profession that we like to discuss, but it is a reality whether or not we wish to confront it. Accordingly, the Society supports the inclusion of the adverse conclusion option in those circumstances where a material and pervasive misstatement in the subject matter exists.

#### ***Proposed Changes That Affect Only Agreed-Upon Procedures Engagements***

We were not able to reach a consensus on the proposed changes that only affect agreed-upon procedures engagements. Accordingly, the Society offers no comment regarding proposed AT-C 215, *Agreed-Upon Procedures Engagements*.

#### ***Issues for Consideration***

We concur with the retention of the prohibition on the performance of limited assurance engagements on (a) prospective financial information; (b) internal controls; and (c) compliance with requirements of specific laws, regulations, rules, contracts, or grants (collectively, the prohibited subject matters). Each of these prohibited subject matters may be examined, and prospective financial information may also be compiled. Our view is that these areas do not readily lend themselves to the objectives and performance of a limited assurance engagement, and that appropriate criteria cannot be established against which to measure and evaluate prospective financial information and internal controls.

With respect to compliance with laws, regulations, etc., the practitioner either concludes that the appropriate party does comply or does not comply. A conclusion that the practitioner is not aware of any material instances of noncompliance with laws, regulations, etc. implies that there are instances of noncompliance. Such a conclusion would probably lead to more questions rather than providing the needed credibility as to the accuracy of the assertion that the appropriate party complies with laws, regulations, etc.

#### ***Effective Date***

The Society does not oppose the proposed effective date. We understand and accept the ASB's reason for prohibiting early application of the proposed revised AT-C sections.

## Summary

The Society believes that should the proposed revisions in the exposure draft be approved and codified into the attestation standards, there will be a steep learning curve to the application of the new material, especially the changes affecting agreed-upon procedures engagements. We view this learning curve as affecting both practitioners attempting to apply the new standards and the market trying to understand how the revisions are different from the traditional agreed-upon procedures engagement.

The AICPA has not, to date, undertaken the development of an Audit and Accounting Guide that addresses the attestation standards in general. Specific Audit and Accounting Guides exist on the topics of sustainability information, SOC 2 reporting on controls at a service organization, and examinations of controls at a service organization relevant to user entities' internal control over financial reporting. In light of the proposed changes to the attestation standards and the strong responses those changes have elicited, such a project would be helpful to practitioners in understanding the subtleties in the exposure draft.

Another reason we believe such a project would be valuable is that some practitioners have issues with the extant standards. One area of particular concern to many practitioners involves what constitutes appropriate versus inappropriate procedures in an agreed-upon procedures engagement. Currently, third-party vendors such as Practitioners Publishing Company and others are left to provide that type of guidance. Accordingly, we strongly urge the ASB and AICPA to consider developing such a guide. Additionally, such a guide may benefit practitioners when discussing the alternatives of the revised agreed-upon procedures engagements with their client, so that the client has the best possible understanding of the changes and what they mean to the client.