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October 31, 2019

American Institute of Certified Public Accountants
1345 Avenue of the Americas, 27th Floor
New York, NY, 10105

Via Email to CommentLetters@aicpa-cima.com

Re: Invitation to Comment Discussion Paper: Materiality Considerations for Attestation Engagements Involving Aspects of Subject Matters That Cannot be Quantitatively Measured

Dear Assurance Services Executive Committee and AICPA staff:

Grant Thornton LLP (“Grant Thornton”) appreciates the opportunity to comment on the AICPA’s Invitation to Comment Discussion Paper: *Materiality Considerations for Attestation Engagements Involving Subject Matters That Cannot be Quantitatively Measured* (the “Discussion Paper”). Grant Thornton is supportive of the proposal to provide guidance on how to apply materiality to subject matter other than historical financial statements and elements thereof. We are of the view that guidance in this area is particularly helpful in view of the growing global demand for assurance on subject matter other than historical financial statements.

We respectfully submit for the AICPA’s consideration our comments, which include two accompanying appendices that contain response to the questions posed in the Discussion Paper and certain paragraph-level comments, respectively. The body of our letter focuses on the areas that we believe are most significant to the proposed guidance and the appendices then go into further detail.

Overall Observations

We believe that, overall, the guidance proposed in the Discussion Paper provides a succinct and easy to read source for materiality considerations with respect to subject matters that cannot be quantitatively measured. In our response, we have included, for your consideration, areas where the examples provided would benefit from further clarity in particular we highlight paragraph 20; and where we believe that terminology may not be used consistently.



We would be pleased to discuss our comments with you. If you have any questions, please contact Cheryl Caldwell, Managing Director, Attest Services Professional Standards Representative, at (214) 561-2312 or Cheryl.Caldwell@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP

Appendix A

Responses to the Discussion Paper

Following please find our specific responses to the questions posed in the *Guide for Respondents* section of the Invitation to Comment Discussion Paper: *Materiality Considerations for Attestation Engagements Involving Subject Matters That Cannot be Quantitatively Measured* (the “Discussion Paper”).

Question 1: Does the Discussion Paper identify the most significant challenges that practitioners may face when considering materiality in examination or review attestation engagements involving aspects of subject matters that cannot be quantitatively measured? Are there other challenges that should be addressed? If so, please specify them.

We believe that the Discussion Paper identifies the most significant challenges that practitioners may face when considering materiality in an examination or review attestation engagement involving subject matters that cannot be quantitatively measured.

A further challenge that we have experienced in practice is defining materiality where multiple indices form the subject matter on which one opinion is being provided, or one conclusion is being formed. For example, in an environmental attestation engagement, there may be indices for water consumption, electricity consumption, and paper consumption. In such situations, the challenge is whether materiality should be determined for each of the indices or whether an overall materiality should be determined for the aggregated indices. We believe this issue would merit additional consideration and ultimately guidance for practitioners would be helpful in driving an appropriate level of consistency in practice in this area.

Another area of challenge with respect to materiality that cannot be quantitatively measured is the sufficiency of the documentation of the practitioner’s considerations around the determination of what is considered to be material. As this is an area that requires the exercise of significant professional judgment, we note that there is a

greater need for a framework that guides practitioners on the appropriate level of documentation.

Question 2: Is the Discussion Paper helpful to assist practitioners considering materiality in these types of attestation engagements? If not, what changes would you propose? Please be as specific as possible.

We believe that the Discussion Paper is helpful to assist practitioners considering materiality in attestation engagements. We have the following recommendations for additional or clarified guidance in the Discussion Paper:

- Paragraph 18 includes examples of matters that could be considered to be misstatements in a narrative presentation. We recommend that these matters be expanded to include excessive or irrelevant disclosures that obscures the relevant information.
- Paragraph 20 includes matters that the practitioner may consider in identifying and evaluating misstatements in a narrative presentation. In particular, part a. discusses developing expectations about the subject matter presentation. We have a number of comments as follows:
 - The discussion could be expanded to include that the expectations developed could be either implicit or explicit.
 - If the reader is unfamiliar with a SOC 2 examination, the example provided is difficult to follow and we recommend that consideration be given to including an additional example based on a SOC 1 report, given that these reports are widely used.
- In the last sentence in part a. of paragraph 20, we recommend replacing “entity’s system objectives” with “service organization’s system objectives” to be consistent with Description Criteria (DC) 7 within DC section 200, *2018 Description Criteria for a Description of a Service Organization’s System in a SOC 2 Report*.
- Part c. of paragraph 20 provides two examples of circumstances where certain aspects of the subject matter addressed in the description is likely to be more important to intended users. Both examples provide a SOC 2 situation where criteria-required disclosures for an in-scope trust services category may be considered more important to an intended user than another in-scope trust services category. We believe that when a trust services category is addressed by the SOC 2 report, the criteria-required disclosures related to the category need to be disclosed for that category. When more than one trust services category is addressed by a SOC 2 report, criteria-required disclosures for one category should not be considered more important to intended users of the report

than the criteria-required disclosures related to a different category. The trust services categories or the controls that relate to the related criteria that are likely to be of more significance to a user of the report may not be known as the services provided by a service organization to user entities and business partners may not be identical. For example, a service organization's system may capture information that includes PHI for some user entities but not all user entities. If the privacy criteria is included in the SOC 2 report, those user entities where PHI is captured would be interested in the criteria-required disclosures relevant to privacy, but user entities that do not have PHI captured may not be interested in such disclosures. The practitioner needs to consider the importance of the information that relates to the criteria-related disclosures to determine whether the description, in all material respects, is presented in accordance with the description criteria. Some information related to criteria-related disclosures will likely be more important to the users of the report than other information but the assessment of what is likely to be more important to the user of the report should be assessed for each trust services category addressed by the SOC 2 report. We recommend that consideration be given to providing alternative examples in part c. of paragraph 20, such as, an example that considers the importance of information specific to a criteria-related disclosure as it relates to a specific trust services category.

The proposed guidance also includes an example where criteria-required disclosures related to security may be more significant to the intended user than criteria-required disclosures related to availability and confidentiality. The security trust services category consists of the common criteria, which are applicable regardless of the trust services category addressed in the SOC 2 report; therefore, the criteria related to the security trust services category will be of significance to all users of the report. In addition, when PHI is used by a service organization, a user of the report would likely be interested in the privacy category, which would encompass the common criteria and would address how "personal information is collected, used, retained, and disposed to meet the entity's objectives"¹ and is not addressed in the example.

- Paragraph 23 includes guidance on the process for considering materiality during planning of an internal control examination. We have the following comments on elements of this paragraph:
 - Clarity is needed in part c. of this paragraph as it relates to "those risks." It is not clear if "those risks" are intended to relate to the risks referred to in parts a., b, and d. "that threaten the achievement of the entity's objectives." If so, we recommend inserting in part c, "that threaten the achievement of the entity's objectives after "those risks."

¹ Paragraph .09e of TSP Section 100: 2017 Trust Services Criteria for Security, Availability, Processing Integrity, Confidentiality, and Privacy

- In part e., it is not clear if this guidance is intended (i) for determining whether a control deviation exists or not, (ii) to be applied once a control deviation has already been determined to exist, or (iii) for both of these situations. The last sentence references “in the development of appropriate procedures,” which may be referring to developing a materiality threshold for determining when a control deviation exists. The last sentence also references “in the evaluation of the results of the procedures,” which may be referring to establishing a materiality threshold when evaluating the number of control deviations to conclude on whether the control is operating effectively or not. Examples in this area may help with clarification of the intention.

We also recommend that consideration be given to the following additional examples or guidance:

- The addition of an illustration of the consideration of qualitative factors in an attestation engagement associated with the tagging of eXtensible Business Reporting Language (XBRL) information. Specifically, the example could provide guidance on factors the practitioner considers when management is required to exercise judgment in selecting the most appropriate available tag, particularly in situations where this may have an effect on key performance indicators or key ratios.
- When determining whether sufficient appropriate evidence has been obtained in an attestation engagement, consider adding guidance as to how qualitative factors could impact the extent of testing performed associated with non-financial subject matters, such as the number of items to test and the persuasiveness of the evidence obtained.

Question 3: Is the Discussion Paper, including the examples provided and the terminology used, clear and easy to understand? If not, please provide specific recommendations or other examples for improvement.

We believe that the examples provided, and the terminology used are generally clear and easy to understand. However, we have a number of comments with respect to specific examples and terminology included in the guidance, which are detailed below.

Examples

In addition to our specific comments above, we recommend that consideration be given to clarification of the example provided or inclusion of an alternate example to further illustrate the proposed guidance for the following:

Identifying and Evaluating Aspects of Subject Matter That Cannot Be Quantitatively Measured – Paragraph 19 includes an example of a situation where management has failed to describe a principal commitment involving compliance with the European Union’s General Data Protection Regulation. We note that principal service commitments are often written broadly, and as such, the example implies a level of specificity not generally experienced in practice. We recommend that consideration be given to whether an alternative example may more effectively illustrate the intent of this guidance. If the guidance in this paragraph is retained, see Appendix B for drafting suggestions.

Communication and trends – Paragraph 29 provides an example of qualitative considerations with respect to “known communications.” Clarity would be useful as to what is meant by known communications. For example, are such communications provided as part of an attestation engagement? To whom are the communications provided? If such communications are between the entity, other practitioners, or third parties, how are such communications determined to be “known” to the practitioner?

Evaluating whether identified misstatements are material – Paragraph 34 provides an example whereby an entity may achieve its service commitments and system requirements based on the applicable trust services criteria in a SOC 2 engagement when a specific criterion is not met, but “other identified controls” were operating effectively. We suggest further clarity is needed in this example as to what is meant by other identified controls. For example, are some of the controls associated with the criterion not operating effectively, but other controls associated with the criterion are operating effectively and mitigate the risk the controls not operating effectively were to address? We recommend an example be provided that illustrates a situation where control(s) are not operating effectively to achieve the criterion, however, based on the practitioner’s professional judgment, a determination was made that the criterion was met based upon the operating effectiveness of other identified controls associated with the criterion.

Determining whether the effect of a material misstatement is pervasive to the subject matters as a whole – Paragraph 49 includes examples of how a practitioner may consider the pervasiveness of material misstatements to the subject matter taken as a whole. In these examples, from the level of errors noted, it is clear the misstatements are pervasive. We recommend that one of the examples be amended such that the conclusion is less obvious.

Terminology

For the following terminology we recommend that consideration be given as to whether the term is used in a manner that is consistent throughout the guidance and with its use in the attestation standards; and whether further guidance can be provided to explain its use in a non-quantitative context:

Deviation – Paragraph 2 of the Discussion Paper notes that a misstatement may be referred to as a deviation. The term deviation can be open to alternative interpretations depending on the nature of the engagement, for example a deviation in internal control could result in a misstatement (error or omission). However, a deviation in and of itself, in the context of sampling, in particular, is not a misstatement. We recommend that the Discussion Paper define the term “deviation” as used in the Discussion Paper to avoid potential confusion of the term.

Deficiency – Paragraph 34 implies that a deficiency is a misstatement, “a practitioner may identify a deficiency (misstatement) ...” This is inconsistent with paragraph 2 of the Discussion Paper where misstatement is described. We further note that the description in paragraph 2 is consistent with the attestation standards. We recommend describing how the term “deficiency” is used in the content of the Discussion Paper.

Clearly trivial – Paragraph 36 uses the term “clearly trivial.” Paragraph A48 of AT-C Section 205² indicates that “matters that are clearly trivial will be of a wholly different (smaller) magnitude than materiality and will be matters that are clearly inconsequential, whether taken individually or in the aggregate and whether judged by any criteria of size, nature, or circumstances.” Practitioners are familiar with applying the term as a quantitative measure. We recommend adding an example of “clearly trivial” applied in a qualitative context.

Question 4: Are you aware of other resources that could assist practitioners with addressing materiality in these types of attestation engagements?

We note that current AICPA Guides, including those related to SOC and Sustainability attestation provide guidance related to those subject matters. As the AICPA and ASEC progress on this project, we believe developing and applying the key principles of this paper in the various guides will be important. We are also aware of the following publications that could assist practitioners with addressing materiality in these types of attestation engagements:

- Institute of Chartered Accountants in England and Wales’ (ICAEW) [online assurance resource](#) (replacing the ICAEW Assurance Sourcebook), Stage 8, *Fieldwork and analysis*
- IAASB’s Extended External Reporting Consultation Paper (and further guidance currently under development)
- IAASB’s International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, paragraph A96

² AT-C Section 205, *Examination Engagements*

In addition, we suggest that ASEC also consider performing outreach to other national auditing standard setters to understand any guidance proposed or that may have been issued in this area.

Appendix B

Paragraph-level comments

Following, please find certain paragraph-level comments for the Board's consideration. Suggested edits are shown as ***bolded italics*** for additions and ~~strike through~~ for deletions.

| Paragraph | Comment |
|-----------|---|
| 8. | <p>A footnote to paragraph .14 of AT-C Section 210³ should be included at the end of the following text:</p> <p>For a review engagement, the practitioner is required to consider materiality when doing the following:</p> <ul style="list-style-type: none">• Planning and performing the review engagement, including when determining the nature, timing and extent of procedures. |
| 16. | <p>To be consistent with AT-C Section 105,⁴ we believe that the discussions with management or the engaging party are performed in order to determine whether the necessary preconditions for an attestation engagement are present in order to accept the engagement.</p> <p>When informing the perception of the common information needs of intended users as a group, the practitioner may do one or any combination of the following:</p> <ul style="list-style-type: none">• Discuss the purpose of the attestation engagement and the intended users of the report with management (or the engaging party, if different), during engagement acceptance <i>while performing the procedures to determine that the preconditions for an attestation engagement are present</i>, as well as the types of decisions intended users are likely to make based on the subject matter. |

³ AT-C Section 210, *Review Engagements*

⁴ AT-C Section 105, *Common Concepts to All Attestation Engagements*

17. We suggest the following edits to materiality considerations during planning:
- The practitioner's consideration of materiality during planning ~~may~~ affects the nature, timing and extent of procedures to be performed.
- We believe that materiality will always have bearing on the nature, timing and extent of procedures to be performed.
18. We suggest the following amendment to paragraph 18:
- When the subject matter of an attestation engagement is a narrative presentation (for example, a description of a system in a SOC 2 examination), certain aspects of the presentation can be qualitatively measured, whereas others cannot be **quantitatively measured**.
19. We suggest the following amendments to paragraph 19:
- ~~As an~~ For example, **the criteria for a SOC 2 report includes assume** the trust services criteria related to privacy ~~is the criteria~~, and management has failed to describe a principle commitment involving compliance with the European Union's General Data Protection Regulation.
21. We note that the misstatements identified in paragraph 21 have not been identified as material misstatements. As such subsequent investigation, including discussion with management, may not result in the need for the presentation to be revised. As such, we suggest the following amendment to paragraph 21:
- A draft of a narrative presentation that contains misstatements (such as omissions of certain disclosures that the practitioner expected or insufficient or inappropriate disclosures about matters required by the criteria) may prompt the practitioner to discuss the misstatements with management. This discussion ordinarily would be held as early as possible to enable management, to revise the **narrative** presentation **when it is determined that a revision is necessary to address the identified misstatement**.
25. We suggest the following amendment to paragraph 27 to reduce the likelihood of a "checklist" mentality when discussing the relevance of qualitative factors with management.
- During planning, for example, the practitioner may discuss the relevance of ~~each~~ qualitative factors with management as part of the practitioner's consideration of materiality.

27. We suggest the following amendment to paragraph 27:
- For instance, when certain information is ~~deemed~~ **determined** to be more important to intended users based on the industry or sector in which the entity operates, misstatements in such information may be ~~deemed~~ **determined to be** more significant.
- Heading The heading above paragraph 29 is “Communication and Trends;” however, the content of this section only appears to deal with communication.
35. We note that each of the practitioner considerations includes an explanation or an example to explain that consideration, except the second bullet. We recommend that an explanation or an example be similarly included with respect to the second bullet.