



ATTEST AND ASSURANCE SERVICES, AND RELATED REPORTS

A BUSY DAY WITH LOTS OF QUESTIONS

Keith Lewis was an assurance partner in a large local CPA firm in his community. On the way home, he reflected on what he thought had been one of the most unique days in his career.

It began with a question from an audit client that had significant debt covenants with the local bank. The client wanted to impress the bank and had come in to ask if Keith could audit the company's compliance with debt covenants as well as the financial statements. Keith responded that he thought he could only give negative assurance on the compliance with debt covenants, in addition to positive assurance on the financial statements, but he would get back to the client the following day.

A second client called an hour later with another unusual request. This client was about to sign a rental agreement. The rent was based on gross sales, and called for an annual audit of sales from that particular location. Keith's firm audited the financial statements that included sales from 12 stores. Could it perform an audit of only sales for only the one store? Keith responded that it would have to be a separate engagement, but that his firm could perform the audit.

Over lunch with a prospective client. Keith learned that the entity kept its records on a cash basis of accounting. The bank wanted an audit, and was willing to accept cash basis financial statements. The client was concerned that cash basis statements were not GAAP and did not want to set up another set of books. Could Keith's firm audit the cash basis financial statements without giving a qualified or an adverse opinion? Keith responded that cash basis statements were another comprehensive basis of accounting and that he could issue an unqualified opinion on cash basis financial statements. Keith said that his firm had just completed a similar engagement for a company that used the federal income tax basis of accounting.

After lunch, Keith had a meeting with another audit client. The client was considering a business expansion and wanted Keith's firm to advise the client on the business risks involved. He felt that Keith's firm had asked questions about business risk when performing the audit, and wondered what other services the firm could perform. Keith briefly explained a service called CPA Risk Advisory and said that he would put together a proposal for the client.

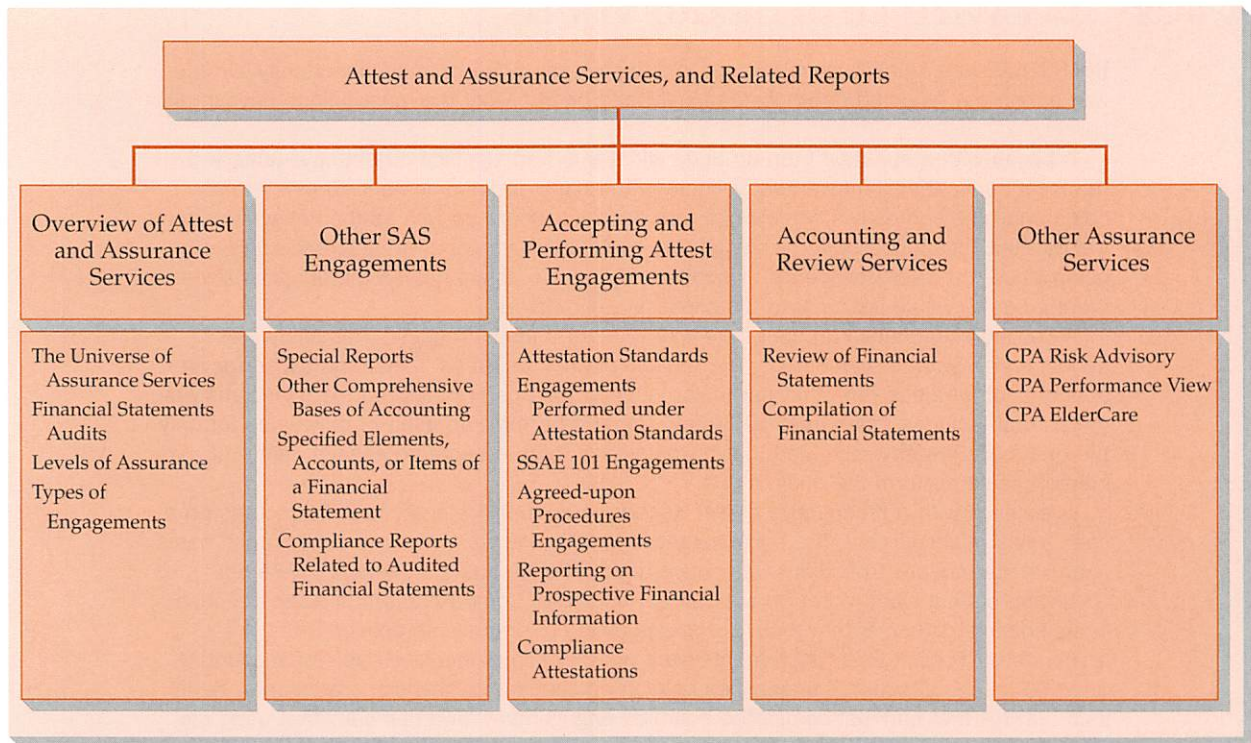
In addition to reviewing regular audit working papers, Keith had had four requests for assurance services that were not for traditional audits. Keith reflected back on the fact that the profession had changed and grown substantially from his first days in the profession. What requests would he receive tomorrow?

Over the years, CPAs have earned a reputation for independence, integrity, and objectivity. This reputation has created opportunities for a wide array of assurance services.

Chapter 20 describes many of these nontraditional attest and assurance services offered by CPAs.

[PREVIEW OF CHAPTER 20]

Chapters 1 through 20 focus on the process of auditing financial statements that are prepared in accordance with GAAP. The financial statement audit is the cornerstone of a variety of services offered by CPAs, as well as the reason for the regulatory franchise associated with granting CPA licenses. Based largely on the skills, experience, and reputation that CPAs have acquired as auditors, businesses, regulatory agencies, and others have increasingly turned to the public accounting profession for a widening range of other types of attest and nonattest services. These are explained in more detail in this chapter. The following diagram provides an overview of the chapter organization and content.



focus on audit decisions

After studying this chapter you should understand the factors that address the following audit decisions:

- D1.** What opinions can be used in an audit of the basic financial statements?
- D2.** What are the primary options in terms of level of service that might be available for an attest engagement?
- D3.** What are the professional standards that cover most audit and attest engagements?
- D4.** Under what circumstances can an auditor audit and report on financial statements prepared in accordance with an other comprehensive basis of accounting?

- D5. Under what circumstances can an auditor audit and report on an individual element, account, or item of the financial statements?
- D6. Under what circumstances can an auditor audit and report on compliance with contractual agreements?
- D7. What are the attestation standards, and how do they compare with GAAS?
- D8. What are the basic principles for a WebTrust engagement?
- D9. What are the basic principles and criteria for a SysTrust engagement?
- D10. What conditions must be met in order to accept an agreed-upon procedures engagement?
- D11. What is the difference between a financial forecast and a projection, and what levels of assurance can be provided on prospective financial statements?
- D12. What assurance can be provided in a compliance attestation performed in accordance with SSAEs?
- D13. What procedures should be performed to support a review and a compilation of the financial statements?
- D14. What language should be used for a review and a compilation report?
- D15. What are the types of services that might be performed as part of a CPA Risk Advisory engagement?
- D16. What are the types of services that might be performed as part of a CPA Performance View engagement?
- D17. What are the types of services that might be performed as part of a CPA ElderCare engagement?

[OVERVIEW OF ATTEST AND ASSURANCE SERVICES]

UNIVERSE OF ASSURANCE SERVICES

Recall from Chapter 1 that CPAs perform a wide range of assurance services. **Assurance services** are independent professional services that improve the quality of information, or its context, for decision makers. The universe of assurance services is depicted in Figure 20-1, and it includes audits, attest services, compilation and review services, and other assurance services.

The audit is the most valued and respected service offered by CPAs. The financial statement audit is the primary subject matter of this book. Other attest services have been offered and accepted in the marketplace. An audit of internal controls over financial reporting began as an attest service. Today, CPAs perform other attest services such as attesting to a financial projection or forecast, or performing an agreed-upon procedures engagement. This chapter explores the full universe of assurance services. It explains the various assurance services, the level of assurance that each service provides, and the types of report that may be issued by CPAs.

FINANCIAL STATEMENT AUDITS

The financial statement audit has been the cornerstone of the accounting profession. In most states the CPA license gives CPAs a monopoly to audit financial statements. By performing financial statement audits, CPAs have developed a reputation for independence, integrity, and objectivity. Chapter 2 discussed auditor responsibilities and auditor reports. Appendix 2A provides a number of examples of audit reports, along with a narrative that explains the meaning of each report and the auditor's criteria for using a report. Figure 20-2 summarizes some of the key examples contained in Chapter 2.

Audit Decision 1

■ What opinions can be used in an audit of the basic financial statements?

Figure 20-1 ■ Universe of Assurance Services

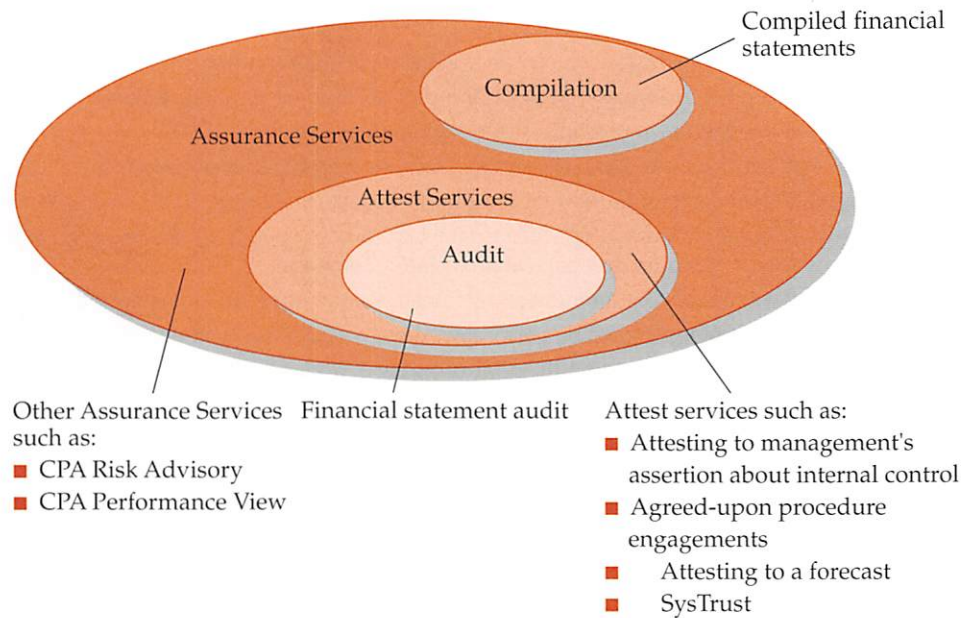


Figure 20-2 ■ A Summary of Examples of Common Audit Reports

Report	Example
Standard report on audited financial statements	Figure 2-3, page 65
Departures from the standard report on audited financial statements	Figure 2-4, page 71
Unqualified opinion on the financial statements with explanatory language regarding going concern	Appendix 2A, page 85
Unqualified opinion on the financial statements with explanatory language regarding a change in accounting principles accounted for in conformity with GAAP	Appendix 2A, page 86
Unqualified opinion on the financial statements with opinion based in part on report of another auditor where there is no scope limitation or nonconformity with GAAP	Appendix 2A, page 87
Unqualified opinion on the financial statements with emphasis of a matter by the auditor	Appendix 2A, page 88
Qualified opinion for departure from GAAP	Appendix 2A, page 89
Qualified opinion for scope limitation	Appendix 2A, page 90
Adverse opinion for departure from GAAP	Appendix 2A, page 91
Disclaimer of opinion for scope limitation	Appendix 2A, page 92
Unqualified opinion—other comprehensive basis of accounting	Appendix 2A, page 93
Standard audit report on internal controls over financial reporting	Figures 2-5, page 73

Audit Decision 2

■ What are the primary options in terms of level of service that might be available for an attest engagement?

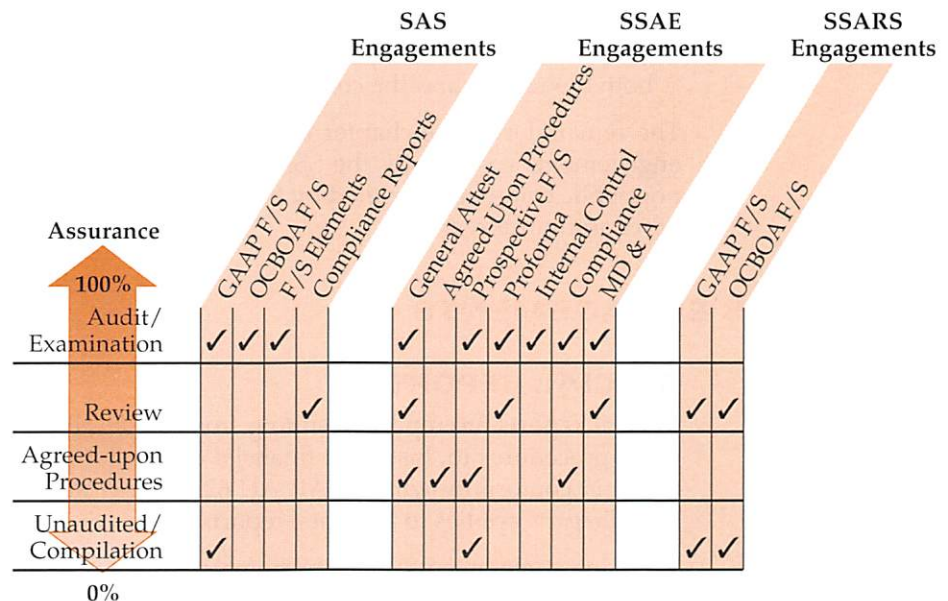
LEVELS OF ASSURANCE

The CPA profession has developed a number of services that build upon the financial statement audit. Some of these services provide audit level assurance on other assertions. Some of these services provide less than audit-level assurance on financial statements. Figure 20-3 depicts an Assurance/Service Matrix that shows how the CPAs reputation for independence, integrity, and objectivity has resulted in expanding the levels of assurance and the types of engagements offered by CPAs. The core service discussed in this book, the audit of GAAP financial statements, is depicted in the upper-left corner of the Assurance/Service Matrix. The following discussion provides an overview of the four basic levels of assurance offered by CPAs and the types of engagements on which these levels of assurance might be rendered.

The four basic levels of assurance can be described as follows:

- **Audit or examination-level assurance**, where the intent of the engagement is a positive expression of an opinion by the CPA regarding an assertion by management governed by professional standards.
- **Review-level assurance**, where the intent of the engagement is for the CPA to express **negative assurance** that nothing came to his or her attention that led the CPA to believe that the assertion by management governed by professional standards would be misleading.
- **Agreed-upon procedures**, where the intent of the engagement is for the CPA to provide a summary of findings based on agreed-upon procedures applied to an assertion by management governed by professional standards. The level of assurance may vary depending on the procedures applied to the assertion.
- **No assurance**, where the intent of the engagement is to assist management in the preparation of information included in an assertion governed by professional standards. Chapter 1 refers to these services as **accounting and compilation**

Figure 20-3 ■ Assurance/Service Matrix



services. The CPA will explicitly state that no assurance is provided in his or her report associated with management's assertion.

Each of these levels of assurance will be discussed in detail throughout this chapter.

Audit Decision 3

■ What are the professional standards that cover most audit and attest engagements?

TYPES OF ENGAGEMENTS

All the types of engagements discussed in this chapter are covered by professional standards developed by the AICPA and are summarized in Figure 20-3. These professional standards promote uniformity in quality of practice and enhance users' understanding of the differences in the types of services rendered and the levels of assurance associated with them. CPAs who perform many of these types of services must also subject their practices to regular peer review. The basic professional standards issued by the Auditing Standards Board that relate to these services are as follows:

- **Statements on Auditing Standards (SAS).** The SASs are interpretations of generally accepted auditing standards and generally relate to management's assertions about elements contained in the financial statements. The types of engagements discussed in this chapter include reporting on financial statements prepared on a comprehensive basis of accounting other than GAAP, reporting on specified elements, accounts, or items of a financial statement, and compliance reports related to audited financial statements.
- **Statements on Standards for Attestation Engagements (SSAE).** The SSAEs establish a broad framework for a variety of attest services increasingly demanded of the accounting profession. The standards and related interpretive commentary are designed to provide professional guidelines that will enhance both consistency and quality in the performance of such services. This chapter provides an overview of attestation standards and discusses reporting on many of the services covered by attestation standards.
- **Statements on Standards for Accounting and Review Services (SSARS).** The SSARSs define the services associated with the review or the compilation of financial statements of a nonpublic entity and provide guidance to accountants concerning the standards and procedures applicable to these two engagements. These services are available only to nonpublic entities; this chapter will discuss both the review and the compilation service.

The remainder of the chapter discusses special reports covered by SASs, attest engagements covered by the SSAEs, and financial statements engagements for nonpublic companies covered by the SSARSs. It concludes with a brief section on other assurance services.

[OTHER SAS ENGAGEMENTS]

SPECIAL REPORTS

Special reports are reports resulting from the audit of, or application of agreed-upon procedures to, historical financial data other than financial statements prepared in conformity with GAAP. AU 623, *Special Reports*, indicates that the term *special reports* applies to auditors' reports on

- Financial statements that are prepared in conformity with a comprehensive basis of accounting other than generally accepted accounting principles

- Specified elements, accounts, or items of a financial statement
- Compliance with aspects of contractual agreements or regulatory requirements related to audited financial statements
- Financial presentations to comply with contractual agreements or regulatory provisions
- Financial information presented in prescribed forms or schedules that require a prescribed form of auditors' report

Special reports based on an audit are similar to the auditor's standard report in that they usually contain an introductory paragraph, a scope paragraph, and an opinion paragraph. However, as explained and illustrated below, special reports have wording that differs from the language in the auditor's standard report. In addition, the "standard" special report may have four or even five paragraphs depending on the circumstances. The explanation of special reports in this chapter is limited to the first three items in the foregoing list.

OTHER COMPREHENSIVE BASES OF ACCOUNTING

Four comprehensive bases of accounting other than GAAP are recognized in AU 623.04:

- A basis used to comply with the requirements or financial reporting provisions of a governmental regulatory agency
- A basis used to file the entity's income tax return
- The cash receipts and disbursements basis of accounting and modifications of the cash basis having substantial support
- A basis that uses a definite set of criteria that has substantial support such as the price-level basis of accounting

The use of an **other comprehensive basis of accounting (OCBOA)** is common. Many companies subject to regulatory bodies keep their accounts solely on the basis prescribed by the agency. For example, railroads conform with the requirements of the Interstate Commerce Commission (ICC), public utilities use the basis set forth by the Federal Energy Regulatory Commission, and insurance companies follow state insurance commission accounting requirements. In addition, many small companies and individual practitioners, such as doctors, lawyers, and CPAs, use the income tax, cash, or modified cash basis of accounting. When an entity uses a basis other than GAAP, the notes to the financial statements should indicate the basis of accounting.

All of the 10 GAAS are applicable whenever the auditor audits and reports on any financial statement, regardless of the basis of accounting used in preparing the statement. The major difference in this case is that the statements are not intended to present fairly financial position, and so forth, in conformity with GAAP. However, the first standard of reporting is satisfied by indicating whether the statements are presented fairly in conformity with the basis of accounting used.

The auditor's special report on financial statements prepared on an OCBOA should contain four paragraphs:

- An *introductory paragraph* that is the same as in the auditor's standard report except that more distinctive titles should be used for the financial statements, such as statement of assets and liabilities arising from cash transactions.

Audit Decision 4

■ Under what circumstances can an auditor audit and report on financial statements prepared in accordance with an other comprehensive basis of accounting?

- A *scope paragraph* that is the same as in the auditor's standard report.
- An *explanatory paragraph* following the scope paragraph that states the basis of presentation and refers to the note to the financial statements that describes the comprehensive basis of accounting other than GAAP.
- An *opinion paragraph* that expresses the auditor's opinion (or disclaims an opinion) on whether the financial statements are presented fairly, in all material respects, in conformity with the basis of accounting described.

As in the case of financial statements prepared in conformity with GAAP, the auditor's special report on statements prepared on an OCBOA may contain additional explanatory language when (1) the auditor cannot express an unqualified opinion or (2) circumstances require explanatory language with an unqualified opinion. An example of a special report on financial statements prepared on a cash basis of accounting is illustrated in Figure 20-4. Notice that distinctive language is used in describing the financial statements in the introductory paragraph and in the wording of the opinion paragraph.

Audit Decision 5

■ Under what circumstances can an auditor audit and report on an individual element, account, or item of the financial statements?

SPECIFIED ELEMENTS, ACCOUNTS, OR ITEMS OF A FINANCIAL STATEMENT

An auditor is not limited to auditing entire financial statements. A CPA can audit an element of the financial statements, an account, or an item in the financial statements. These engagements may include audits of rentals, royalties, profit participation plans, or the provision for income taxes. A special report may be issued on

Figure 20-4 ■ Special Report—Cash Basis of Accounting

Independent Auditor's Report

We have audited the accompanying statements of assets and liabilities arising from cash transactions of XYZ Company as of December 31, 20X2 and 20X1, and the related statements of revenue collected and expenses paid for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

As described in note X, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from cash transactions of XYZ Company as of December 31, 20X2 and 20X1, and its revenue collected and expenses paid during the years then ended, on the basis of accounting described in note X.

Source: AU 623.08.

these data as a result of an audit to obtain reasonable assurance about their fair presentation.

An audit culminates in the expression of an opinion on the fairness of the presentation of the specified elements, accounts, or items. The specified data may be presented in conformity with GAAP or an OCBOA, or on the basis of an agreement such as a lease contract. All 10 GAAS are applicable when the specified data are presented in conformity with GAAP or an OCBOA. Otherwise, the first reporting standard is inapplicable. An engagement to express an opinion on specified elements, accounts, or items may be made in conjunction with the audit of the financial statements or in a separate engagement.

Distinctive wording is required in the introductory, scope, and opinion paragraphs of the special report because the auditor is not reporting on the financial statements taken as a whole. A special report on a royalty contract is illustrated in Figure 20-5. In describing the basis of presentation (paragraph 3), if considered necessary, the auditor may include any significant interpretations of the contract made by the company's management. In expressing an opinion, AU 623.13 indicates that the auditor should recognize that the concept of materiality must be related to each individual element, account, or item being reported on rather than

Figure 20-5 ■ Special Report on Royalties: Separate Audit Engagement; Audited Data Presented per Agreement

Independent Auditor's Report

We have audited the accompanying schedule of royalties applicable to engine production of the Q division of XYZ Corporation for the year ended December 31, 20X2, under the terms of a license agreement dated May 14, 20XX, between ABC Company and XYZ Corporation. This schedule is the responsibility of XYZ Corporation's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of royalties is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe our audit provides a reasonable basis for our opinion.

We have been informed that, under XYZ Corporation's interpretation of the agreement referred to in the first paragraph, royalties were based on the number of engines produced after giving effect to a reduction for production retirements that were scrapped, but without a reduction for field returns that were scrapped, even though the field returns were replaced with new engines without charge to the customer.

In our opinion, the schedule of royalties referred to above presents fairly, in all material respects, the number of engines produced by the Q division of XYZ Corporation during the year ended December 31, 20X2, and the amount of royalties applicable thereto, under the license agreement referred to above.

This report is intended solely for the information and use of the boards of directors and management of XYZ Corporation and ABC Company and should not be used by anyone other than these parties.

Source: AU 623.18.

to the financial statements taken as a whole. Furthermore, the auditor should not express an opinion on the specified data when he or she has expressed an adverse opinion or disclaimed an opinion on the financial statements unless the specified data constitute only an insignificant portion of the financial statements. Finally, the use of the report is limited to parties who understand the royalty agreement.

COMPLIANCE REPORTS RELATED TO AUDITED FINANCIAL STATEMENTS

Audit Decision 6

■ Under what circumstances can an auditor audit and report on compliance with contractual agreements?

Companies may be required by contractual agreements or regulatory agencies to furnish compliance reports by independent auditors. For example, bond indentures often impose a variety of obligations on borrowers such as payments to sinking funds, maintenance of a minimum current ratio, and restrictions on dividend payments. In addition to requiring audited financial statements, lenders or their trustees often request assurance from the independent auditor that the borrower has complied with the accounting and auditing covenants of the agreement. The auditor satisfies this request by giving *negative assurance* on compliance by stating that “nothing came to our attention which would indicate that the company is not in compliance.” AU 623.19 states that this assurance should not be given unless the auditor has audited the financial statements to which the agreements or regulatory requirements relate.

Furthermore, such assurance should not extend to covenants that relate to matters that have not been subjected to the audit procedures performed in the financial statement audit, and should not be given when the audit resulted in an adverse opinion or a disclaimer of opinion.

The auditor’s assurance on compliance may be given in a separate report or in one or more explanatory paragraphs following the opinion paragraph of the report on the audited financial statements. The report language should restrict the distribution of the information on negative assurance to parties within the entity (such as the board of directors), parties to the loan agreement, or the regulatory agency. A separate report on debt compliance is illustrated in Figure 20-6.

Figure 20-6 ■ Special Report on Debt Compliance Given as a Separate Report

Independent Auditor’s Report

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of XYZ Company as of December 31, 20X2, and the related statements of income, retained earnings, and cash flows for the year then ended, and have issued our report thereon dated February 16, 20X3.

In connection with our audit, nothing came to our attention that caused us to believe that the company failed to comply with the terms, covenants, provisions, or conditions of sections XX to XX, inclusive of the indenture dated July 20, 20X0, with ABC Bank insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the boards of directors and management of XYZ Company and ABC Bank and is not intended to be and should not be used by anyone other than these specified parties.

Source: AU 623.21.

LEARNING CHECK

- 20-1** a. Describe four basic levels of assurance that can be rendered by CPAs in a variety of engagements.
b. Identify three groups of professional standards that are issued by the Auditing Standards Board. Briefly describe the types of professional services that are covered by each group of standards.
- 20-2** a. What types of reports are encompassed by the term *special reports* as described in AU 623?
b. State the common characteristics of the types of data covered by special reports.
- 20-3** a. When is a basis of accounting considered to be an other comprehensive basis of accounting (OCBOA)?
b. Explain the effects on the auditor's standard report when reporting on financial statements prepared on an OCBOA.
- 20-4** a. Describe the types of circumstances when the auditor would be asked to report on specified elements, accounts, or items of a financial statement.
b. Describe the auditor's report for an engagement where he or she audits specified elements, accounts, or items of a financial statement.
- 20-5** a. Under what circumstances may an auditor provide negative assurance in a compliance report related to audited financial statements?
b. What are the reporting options for conveying negative assurance in these circumstances?

KEY TERMS

Accounting and compilation services, p. 937	Special reports, p. 938
Agreed-upon procedures, p. 937	Review-level assurance, p. 937
Assurance services, p. 935	Statements on Auditing Standards (SAS), p. 938
Audit or examination-level assurance, p. 937	Statements on Standards for Accounting and Review Services (SSARS), p. 938
Negative assurance, p. 937	Statements on Standards for Attestation Engagements (SSAE), p. 938
No assurance, p. 937	
Other comprehensive basis of accounting (OCBOA), p. 939	

ACCEPTING AND PERFORMING ATTEST ENGAGEMENTS

Audit Decision 7

■ What are the attestation standards, and how do they compare with GAAS?

In 1986, the AICPA issued the first in a new series of authoritative statements entitled **Statements on Standards for Attestation Engagements (SSAE)**, which are intended to provide guidance and establish a broad framework for performing and reporting on attest services. **Attest services** are engagements in which a certified public accountant in the practice of public accounting (often referred to as the practitioner) is engaged to issue or does issue an examination, a review, or an agreed-upon procedures report on subject matter, or an assertion about the subject matter (the assertion), that is the responsibility of another party.

A CPA should accept only those **attest engagements** that can be completed in accordance with the attestation standards described in the next section. In performing an attest engagement, a CPA (1) gathers evidence to support the assertion, (2) objectively assesses the measurements and communications of the individual making the assertion, and (3) reports the findings. Thus, because they are concerned primarily with the basis and support for written assertions, attest services are analytical, critical, and investigative in nature.

A variety of services do not involve attesting to the reliability of a written assertion that is the responsibility of another party. Examples of CPA services that would not be considered attest engagements include

- Management consulting engagements in which the practitioner is engaged to provide advice or recommendations to a client.
- Engagements in which the practitioner is engaged to advocate a client's position—for example, tax matters being reviewed by the Internal Revenue Service.
- Tax engagements in which a practitioner is engaged to prepare tax returns or provide tax advice.
- Engagements in which the practitioner compiles financial statements, because he or she is not required to examine or review any evidence supporting the information furnished by the client and does not express any conclusion on its reliability.
- Engagements in which the practitioner's role is solely to assist the client—for example, acting as the company accountant in preparing information other than financial statements.
- Engagements in which a practitioner is engaged to testify as an expert witness in accounting, auditing, taxation, or other matters.
- Assurance services such as CPA Risk Advisory or CPA Performance View (see pp. 965–968).

ATTESTATION STANDARDS

In an attest engagement, the CPA must meet the 11 general **attestation standards** presented in SSAE 1. These standards are shown in Figure 20-7 where they are compared with the 10 generally accepted auditing standards (GAAS) with which we are already familiar.

As the figure shows, the attestation standards, like GAAS, are classified into three categories: general, fieldwork, and reporting. Comparison of the standards in each category reveals that the attestation standards are a natural extension of GAAS to accommodate the broader array of attest services. However, several significant conceptual differences between the two sets of standards may be observed. Specifically, the attestation standards:

- Extend the attest function beyond historical financial statements. Thus, the standards omit references to financial statements and to GAAP.
- Allow the CPA to give assurances on the assertions below the level of the “positive expression of opinion” associated with the traditional financial statement audit.
- Provide for attest services tailored to the needs of specific users based on “agreed-upon procedures” and “limited-use” reports.

Figure 20-7 ■ Attestation Standards Compared with GAAS

Attestation Standards	General Accepted Auditing Standards
<p>General Standards</p> <ol style="list-style-type: none"> 1. The engagement shall be performed by a practitioner or practitioners having adequate technical training and proficiency in the attest function. 2. The engagement shall be performed by a practitioner or practitioners having adequate knowledge in the subject matter of the assertion. 3. The practitioner shall perform the engagement only if he or she has reason to believe that the subject matter is capable of evaluation against criteria that are suitable and available to users. 4. In all matters relating to the engagement, an independence in mental attitude shall be maintained by the practitioner or practitioners. 5. Due professional care shall be exercised in the performance of the engagement. 	<ol style="list-style-type: none"> 1. The audit is to be performed by a person or persons having adequate technical training and proficiency as an auditor. 2. In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors. 3. Due professional care is to be exercised in the planning and performance of the examination and the preparation of the report
<p>Standards of Fieldwork</p> <ol style="list-style-type: none"> 1. The work shall be adequately planned and assistants, if any, shall be properly supervised. 2. Sufficient evidence shall be obtained to provide a reasonable basis for the conclusion that is expressed in the report. 	<ol style="list-style-type: none"> 1. The work is to be adequately planned and assistants, if any, are to be properly supervised. 2. A sufficient understanding of the entity and its environment, including its internal control, should be obtained to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing and extent of further audit procedures. 3. Sufficient competent audit evidence should be obtained through audit procedures performed to afford a reasonable basis for an opinion regarding the financial statements under audit.
<p>Standards of Reporting</p> <ol style="list-style-type: none"> 1. The report shall identify the assertion being reported on and state the character of the engagement. 2. The report shall state the practitioner's conclusion about the reliability of the assertion based on the established or stated criteria against which it was measured. 3. The report shall state all of the practitioner's significant reservations about the engagement and the assertion. 4. The report shall state that the use of the report is restricted to specified parties under the following circumstances: <ul style="list-style-type: none"> • When the criteria used to evaluate the subject matter are determined by the practitioner to be appropriate only for a limited number of parties who either participated in their establishment or can be presumed to have an adequate understanding of the criteria • When the criteria used to evaluate the subject matter are available only to specified parties • When reporting on subject matter and a written assertion has not been provided by the responsible party • When the report is on an attest engagement to apply agreed-upon procedures to the subject matter. 	<ol style="list-style-type: none"> 1. The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles. 2. The report shall state whether such principles have been consistently observed in the current period in relation to the preceding period. 3. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report. 4. The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefor should be stated. In all cases where an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's examination, if any, and the degree of responsibility he is taking.

Source: Introduction to Attestation Standards.

The two new general standards (numbers 2 and 3) establish the boundaries for attest services. This type of service is limited to engagements in which (1) the CPA has adequate knowledge of the subject matter of the assertion and (2) the assertion is capable of evaluation against criteria that are suitable to users. Though not explicitly stated in the general standards, the definition of an attest engagement given in SSAE 1 requires that the assertion be in writing.

The second standard of fieldwork under GAAS requires the auditor to obtain an understanding of internal control, however, obtaining an understanding of internal control is not applicable in all attest engagements.

The separate GAAS reporting standards pertaining to consistency and informative disclosures are encompassed, when applicable, in the second attestation standard of reporting which requires a conclusion as to whether the assertions are presented in conformity with established criteria. The fourth attestation standard of reporting explicitly acknowledges the “limited-use” attribute of many attestation reports that impose restrictions on their distribution.

ENGAGEMENTS PERFORMED UNDER ATTESTATION STANDARDS

Figure 20-8 provides a summary of engagements that a CPA can perform under Statements on Standards for Attestation Engagements (SSAEs). This figure provides an overview of the attest services and describes the levels of assurance associated with each attest service. The following discussion focuses on four of these engagements:

- SSAE 101 engagements
- Agreed-upon procedures engagements
- Prospective financial information (forecast and projections)
- Compliance attestations

The standards for reporting on internal controls for public companies are governed by PCAOB Standard No. 2, *An Audit of Internal Control over Financial Reporting Conducted in Conjunction with an Audit of Financial Statements*.

SSAE 101 ENGAGEMENTS

Early in 2000, the AICPA Assurance Services Executive Committee endorsed principles and criteria for two types of engagements, CPA **WebTrust** and CPA **SystemTrust**. Both of these assurance services are designed to meet the needs expressed by decision makers for assurance about the reliability of information systems, particularly those associated with electronic commerce. Each of these services results in a report issued under SSAE 101.

CPA WebTrust

Electronic commerce (e-commerce) grew dramatically in the last two decades. The growth of the World Wide Web has been accompanied by many businesses using the Web to conduct business, to both market and sell their products to customers. However, many consumers perceive that the risks of doing business electronically outweigh the advantages of e-commerce.

Audit Decision 8

- What are the basic principles for a WebTrust engagement?

Figure 20-8 ■ Summary of Engagements Covered by Statements on Standards for Attestation Engagements

SSAE Section	Nature of Attest Engagement	Type of Assurance
101	<p>Attest Engagements—This section sets forth attestation standards and provides guidance to a practitioner regarding general attest engagements. The standard establishes a framework for general attest engagements developed around the attestation standards explained in Figure 20-7. Two assurance services performed under SSAE 101 include WebTrust and SysTrust.</p>	<p>Examination Review Agreed-upon Procedures</p>
201	<p>Agreed-upon Procedure Engagements—This section sets forth attestation standards and provides guidance to a practitioner concerning performance and reporting in all agreed-upon procedures engagements, except those covered by other specific professional standards.</p>	<p>Agreed-upon Procedures</p>
301	<p>Financial Forecasts and Projections</p> <p>A financial forecast is a prospective financial statement that presents, to the best of the responsible party's knowledge and belief, an entity's expected financial position, results of operations, and cash flows.</p> <p>A financial projection is a prospective financial statement that presents, to the best of the responsible party's knowledge and belief, given one or more hypothetical assumptions, an entity's expected financial position, results of operations, and cash flows.</p>	<p>Examination Agreed-upon Procedures Compilation</p>
401	<p>Reporting on Pro Forma Information</p> <p>The objective of pro forma financial information is to show what the significant effects on historical financial information might have been had a consummated or proposed transaction (or event) occurred at an earlier date. Pro forma financial information is commonly used to show the effects of transactions such as a business combination, the disposition of a significant portion of the business, or a change in the form of business organization or status as an autonomous entity.</p>	<p>Examination Review</p>
501	<p>Reporting on an Entity's Internal Controls—This section provides guidance regarding:</p> <ul style="list-style-type: none"> • Conditions that must be met for a practitioner to accept an engagement to examine the effectiveness of an entity's internal control; the prohibition of acceptance of an engagement to review such subject matter. • Engagements to examine the design and operating effectiveness of an entity's internal control. • Engagements to examine the design and operating effectiveness of a segment of an entity's internal control. • Engagements to examine only the suitability of design of an entity's internal control (no assertion is made about the operating effectiveness of the internal control). • Engagements to examine the design and operating effectiveness of an entity's internal control based on criteria established by a regulatory agency. 	<p>Examination</p>
601	<p>Compliance Attestations—This section provides guidance for engagements related to management's written assertion about either</p> <ul style="list-style-type: none"> • An entity's compliance with requirements of specified laws, regulations, rules, contracts, or grants, or • The effectiveness of an entity's internal control over compliance with specified requirements. 	<p>Examination Agreed-upon Procedures</p>
701	<p>Management's Discussion and Analysis—This section sets forth attestation standards and provides guidance to a practitioner concerning the performance of an attest engagement with respect to management's discussion and analysis (MD&A) prepared pursuant to the rules and regulations adopted by the Securities and Exchange Commission (SEC), which are presented in annual reports to shareholders and in other documents.</p>	<p>Examination Review</p>

These risks include concerns about

- An entity's **business and information privacy practices**—that is, whether the entity discloses its business and information privacy practices for e-commerce transactions and executes transactions in accordance with its disclosed practices.
- **Transaction integrity**—that is, whether the entity maintains effective controls to provide reasonable assurance that customers' transactions using e-commerce are completed and billed as agreed.
- **Information protection**—that is, whether the entity maintains effective controls to provide reasonable assurance that the private customer information obtained as a result of e-commerce is protected from uses not related to the entity's business.

WebTrust was developed jointly by the AICPA and the Canadian Institute for Chartered Accountants (CICA) to provide assurance to e-commerce consumers about these risks.

The principles followed in a WebTrust engagement are summarized in Figure 20-9 along with example criteria. Three WebTrust principles were developed around the risks of (1) business and information privacy practices, (2) transaction integrity, and (3) information protection. In the United States a WebTrust engagement is performed as an attest engagement under SSAE 101. The WebTrust client makes an assertion about whether it met the WebTrust principles and criteria, and about its business practices, its internal controls related to executing the transaction as agreed with a customer using e-commerce, and its internal controls related to the privacy of customer information. Organizations that use the WebTrust service and seal include the American Red Cross, Baltimore Technologies, Bell Canada, and Verisign.

CPA SysTrust

Audit Decision 9

- What are the basic principles and criteria for a SysTrust engagement?

A current trend in business practices involves outsourcing services that are important to an organization but are not part of the organization's core competencies. Organizations are also entering into strategic alliances to more efficiently and effectively accomplish organizational goals. For example, many of the state CPA societies have entered into a shared-services network to develop a common database and join together many of their common backroom functions. Through this alliance, state CPA societies will be able to put together the resources to accomplish what no one could accomplish individually. As organizations enter into these alliances, partnerships, joint venture agreements, and outsourcing arrangements, they have concerns about the reliability of the data and information that they share in common. Will member data be adequately safeguarded? Does the underlying system produce reliable information to support decision making? SysTrust was developed jointly by the AICPA and the CICA to provide this level of assurance about system reliability.

Figure 20-10 summarizes the SysTrust principles and criteria. The goal is to provide the user of a SysTrust report with assurance about the overall reliability of the system used for decision making, as defined by these four characteristics. The CPA can attest to all four SysTrust principles or any one SysTrust principle.

For each principle the criteria are organized into three categories. The first is *communications*, which addresses whether the entity has defined performance

Figure 20-9 ■ WebTrust Principles

Business and Information Privacy Practices	<p>The entity discloses its business and information privacy practices for e-commerce transactions and executes transactions in accordance with its disclosed practices.</p> <p><i>Example Criteria</i></p> <ul style="list-style-type: none"> • The entity discloses descriptive information about the nature of the goods that will be shipped or the services that will be provided, including, but not limited to, the following: <ul style="list-style-type: none"> • Condition of goods (meaning, whether they are new, used, or reconditioned). • Description of services (or service contract). • The entity discloses the terms and conditions by which it conducts its e-commerce transactions including but not limited to the following: <ul style="list-style-type: none"> • Time frame for completion of transactions (transaction means fulfillment of orders where goods are being sold and delivery of service where a service is being provided). • The entity discloses on its web site (and/or in information provided with the product) where customers can obtain warranty, repair service, and support related to the goods and services purchased on its web site. • The entity discloses on its web site its information privacy practices. These practices include but are not limited to the following disclosures.
Transaction Integrity	<p>The entity maintains effective controls to provide reasonable assurance that customers' transactions using e-commerce are completed and billed as agreed.</p> <p><i>Example Criteria</i></p> <ul style="list-style-type: none"> • The entity maintains controls to provide reasonable assurance that: <ul style="list-style-type: none"> • Each request or transaction is checked for accuracy and completeness. • Positive acknowledgment is received from the customer before the transaction is processed • The entity maintains controls to provide reasonable assurance that: <ul style="list-style-type: none"> • Sales prices and all other costs/fees are displayed for the customer before processing the transaction. • Transactions are billed and electronically settled as agreed.
Information Protection	<p>The entity maintains effective controls to provide reasonable assurance that private customer information obtained as a result of e-commerce is protected from uses not related to the entity's business.</p> <p><i>Example Criteria</i></p> <ul style="list-style-type: none"> • The entity maintains controls to protect transmissions of private customer information over the Internet from unintended recipients. • The entity maintains controls to protect private customer information obtained as a result of e-commerce and retained in its system from outsiders.

objectives, policies, and standards for each principle. The second is *procedures*, which addresses whether the entity uses procedures, people, software, data, and infrastructure to achieve each principle. The final area is *monitoring*, which addresses whether an entity monitors the system and takes actions to achieve compliance with the principles.

In the United States, a SysTrust engagement is performed as an attest engagement under either AT 101, *Attest Engagements*, or AT 201, *Agreed-Upon Procedures Engagements*. The SysTrust client makes an assertion about whether it met the SysTrust principles and criteria. In other words, management makes an assertion

Figure 20-10 ■ SysTrust Principles and Criteria

SysTrust Principles	Broad SysTrust Criteria
<p>Availability: The system is available for operation and use at times set forth in the service-level statements or agreements.</p>	<ol style="list-style-type: none"> 1. The entity has defined and communicated performance objectives, policies, and standards for system availability. 2. The entity utilizes procedures, people, software, data, and infrastructure to achieve system availability objectives in accordance with established policies and standards. 3. The entity monitors the system and takes action to achieve compliance with system availability objectives, policies, and standards.
<p>Security: The system is protected against unauthorized physical and logical access.</p>	<ol style="list-style-type: none"> 1. The entity has defined and communicated performance objectives, policies, and standards for system security. 2. The entity utilizes procedures, people, software, data, and infrastructure to achieve system security objectives in accordance with established policies and standards. 3. The entity monitors the system and takes action to achieve compliance with system security objectives, policies, and standards.
<p>Integrity: Systems processing is complete, accurate, timely, and authorized.</p>	<ol style="list-style-type: none"> 1. The entity has defined and communicated performance objectives, policies, and standards for system processing integrity. 2. The entity utilizes procedures, people, software, data, and infrastructure to achieve system processing integrity objectives in accordance with established policies and standards. 3. The entity monitors the system and takes action to achieve compliance with system processing integrity objectives, policies, and standards.
<p>Maintainability: The system can be updated when required in a manner that continues to provide for system availability, security, and integrity.</p>	<ol style="list-style-type: none"> 1. The entity has defined and communicated performance objectives, policies, and standards for system maintainability. 2. The entity utilizes procedures, people, software, data, and infrastructure to achieve system maintainability objectives in accordance with established policies and standards. 3. The entity monitors the system and takes action to achieve compliance with system maintainability objectives, policies, and standards.

Source: AICPA/CICA SysTrust™ Principles and Criteria for Systems Reliability, Version 2.0, AICPA/CICA, 2001.

about the reliability of the system in terms of availability, security, integrity, and maintainability. According to the *AICPA/CICA SysTrust Principles and Criteria for Systems Reliability, Version 2.0*, the CPA may report on either of the following:

- Management's assertion that it maintained effective controls over the reliability of the system during the period covered by the report.
- The subject matter—that is, the effectiveness of controls over the system's reliability during the period covered by the report. If one or more criteria have not been achieved, the practitioner can issue a qualified or adverse report.

However, when issuing a qualified or adverse report, the practitioner should report directly on the subject matter rather than on the assertion. Since the concept of system reliability is dynamic rather than static, SysTrust reports will always cover a historical period of time as opposed to a point in time. Although the determination of an appropriate period should be at the discretion of the CPA and the report-

ing entity, the AICPA/CICA report on principles and criteria suggests that reporting periods of less than three months generally would not be deemed meaningful.

AGREED-UPON PROCEDURES ENGAGEMENTS

Audit Decision 10

■ What conditions must be met in order to accept an agreed-upon procedures engagement?

The application of **agreed-upon procedures** does not constitute an audit. This type of service might occur, for example, in a proposed acquisition when the prospective purchaser asks the accountant only to reconcile bank balances and confirm the accounts receivable. AT 201, *Agreed-upon Procedure Engagements*, states that an independent accountant may accept an engagement to apply agreed-upon procedures to specified elements, accounts, or items in a financial statement under the conditions identified in Figure 20-11.

In order to ensure that all the specified parties understand the agreed-upon procedures and take responsibility for the sufficiency of those procedures, the accountant will ordinarily communicate directly with and obtain affirmative acknowledgment from each of the specified parties. The accountant's responsibility in an agreed-upon procedures engagement is to carry out the procedures and report the findings in accordance with the applicable general, fieldwork, and reporting standards.

An accountant should present the results of applying agreed-upon procedures to specific subject matter in the form of a **report of procedures and findings**. The CPA should not give negative assurance in the report of findings and should avoid vague or ambiguous language in reporting findings. Figure 20-12 provides some examples of appropriate and inappropriate descriptions of findings.

Figure 20-11 ■ Conditions for Accepting an Agreed-Upon Procedures Engagement

- a. The practitioner is independent.
- b. One of the following conditions is met.
 - (1) The party wishing to engage the practitioner is responsible for the subject matter, or has a reasonable basis for providing a written assertion about the subject matter when the nature of the subject matter is such that a responsible party does not otherwise exist.
 - (2) The party wishing to engage the practitioner is not responsible for the subject matter but is able to provide the practitioner, or have a third party who is responsible for the subject matter provide the practitioner with evidence of the third party's responsibility for the subject matter.
- c. The practitioner and the specified parties agree upon the procedures performed or to be performed by the practitioner.
- d. The specified parties take responsibility for the sufficiency of the agreed-upon procedures for their purposes.
- e. The specific subject matter to which the procedures are to be applied is subject to reasonably consistent measurement.
- f. Criteria to be used in the determination of findings are agreed upon between the practitioner and the specified parties.
- g. The procedures to be applied to the specific subject matter are expected to result in reasonably consistent findings using the criteria.
- h. Evidential matter related to the specific subject matter to which the procedures are applied is expected to exist to provide a reasonable basis for expressing the findings in the practitioner's report.
- i. Where applicable, the practitioner and the specified parties agree on any materiality limits for reporting purposes.
- j. Use of the report is restricted to the specified parties.
- k. For agreed-upon procedures engagements on prospective financial information, the prospective financial statements include a summary of significant assumptions.

Figure 20-12 ■ Descriptions of Findings and Conclusions

Agreed-upon Procedures	Appropriate Description of Findings	Inappropriate Description of Findings
Inspect the shipment dates for a sample (agreed-upon) of specified shipping documents, and determine whether any such dates were subsequent to December 31, 20XX.	No shipment dates shown in the sample of shipping documents were subsequent to December 31, 20XX.	Nothing came to my attention as a result of applying that procedure.
Calculate the number of blocks of streets paved during the year ended September 30, 20XX, shown on contractors' certificates of project completion; compare the resultant number to the number in an identified chart of performance statistics.	The number of blocks of streets paved in the chart of performance statistics was Y blocks more than the number calculated from the contractors' certificates of project completion.	The number of blocks of streets paved approximated the number of blocks included in the chart of performance statistics.
Inspect the quality standards classification codes in identified performance test documents for products produced during a specified period; compare such codes to those shown in an identified computer printout.	All classification codes inspected in the identified documents were the same as those shown in the computer printout except for the following: [List all exceptions.]	All classification codes appeared to comply with such performance documents.

Source: AT 201.26.

AT 201.31 states that the accountant's report should contain the following elements:

- A title that includes the word *independent*
- Identification of the specified parties
- Identification of the subject matter (or the written assertion related thereto) and the character of the engagement
- Identification of the responsible party
- A statement that the subject matter is the responsibility of the responsible party
- A statement that the procedures performed were those agreed to by the specified parties identified in the report
- A statement that the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the AICPA
- A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures
- A list of the procedures performed (or reference thereto) and related findings.
- Where applicable, a description of any agreed-upon materiality limits
- A statement that the practitioner was not engaged to and did not conduct an examination of the subject matter, the objective of which would be the expression of an opinion, a disclaimer of opinion on the subject matter, and a statement that if the practitioner had performed additional procedures, other matters might have come to his or her attention that would have been reported