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Comparing attest and consulting services : a guide for the practitioner; Consulting services special report, 93-3

American Institute of Certified Public Accountants. Management Consulting Services Division

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**CONSULTING SERVICES
SPECIAL REPORT 93-3**

***Comparing Attest and
Consulting Services:
A Guide for
the Practitioner***

Management Consulting Services Division

AMERICAN

INSTITUTE OF

CERTIFIED

PUBLIC

ACCOUNTANTS

NOTICE TO READERS

This special report is designed as educational and reference material for Institute members and others who provide *consulting services* as defined in the Statement on Standards for Consulting Services (SSCS) issued by the AICPA. It does not establish standards or preferred practices.

Various members of the 1992-1993 AICPA MCS Practice Standards and Administration Subcommittee provided advice for this special report. The subcommittee members are listed below.

Leonard M. Sommer, *Chairman*
Chris Eugene Best
Dominic Cingoranelli, Jr.
D.J. Muse

Francis E. Reardon
Robert F. Roussey
Barry R. Rubin
Paul McNeel Thrasher III

John F. Hudson, *Vice President*
Technical Standards and Services

Monte N. Kaplan, *Technical Manager*
Management Consulting Services

Steven E. Sacks, *Technical Manager*
Management Consulting Services

William J. Moran, *Editor/Coordinator*
Management Consulting Services

AICPA

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**COMPARING ATTEST AND CONSULTING SERVICES:
A GUIDE FOR THE PRACTITIONER**

Introduction

.01 The purpose of this special report is to help a practitioner¹ identify when an attest service is appropriate. An attest service may be either required or desired. It may be performed instead of, or as part of, a consulting services engagement. Determining the appropriate service is the responsibility of the practitioner. Therefore, the practitioner needs to be aware of the significant differences between attest and consulting services that will affect engagement planning and staffing, fieldwork, evaluation criteria, and reporting.

.02 In the past, a practitioner could more readily determine the type of service to provide and apply the appropriate professional standards. Today, the issue is more complex. For example, the Statements on Standards for Attestation Engagements (SSAEs), the Statement on Standards for Accountants' Services on Prospective Financial Information, and the guidance provided in the SSAEs on Reporting on Pro Forma Financial Information can apply even if the described services are provided as part of a broader consulting service or tax engagement. The contents of this special report will be more easily understood if the reader is familiar with the SSAEs *Attestation Standards* and *Attest Services Related to MAS Engagements*.²

.03 When is the practitioner engaged as an attester and when as an advisor? The subject matter of an engagement does not establish whether the service to be performed is an attest service, a consulting service, or both, nor can the practitioner depend on the client to identify which service is required. The practitioner needs to explain the differences and to determine the appropriate services.

.04 Determining which services to provide may not be clear-cut. Unless practitioners understand the differences between attest and consulting services, they may unintentionally propose or conduct an engagement that involves an attest service without recognizing that they need to apply different professional standards in accordance with the SSAEs.

¹ *Practitioner* is defined in the Statement on Standards for Attestation Engagements (SSAE) *Attestation Standards* (New York: AICPA, 1986) to include a proprietor, partner, or shareholder in a public accounting firm and any full-time or part-time employee of a public accounting firm, whether certified or not.

² Before January 1, 1992, when the Statement on Standards for Consulting Services (SSCS) No. 1, *Consulting Services: Definitions and Standards*, became effective, the term *management advisory services (MAS)* was used in the literature to refer to consulting services.

.05 A requirement to perform an attest service can result when there is a need to provide an appropriate level of assurance on a specific written assertion, whether it is a client's or another party's assertion. The attest service will incorporate certain formalized elements not appropriate or required for consulting services.

.06 This special report is intended to help practitioners identify the type of service needed and to understand and apply the appropriate professional standards. It does not expand or interpret the binding professional standards for attest engagements or consulting engagements. Practitioners should understand the SSAEs and the Statement on Standards for Accountants' Services on Prospective Financial Information as well as the Statement on Standards for Consulting Services (SSCS) No. 1, *Consulting Services: Definitions and Standards*.

.07 This special report includes:

- A narrative discussing key attributes of attestation engagements that differ from consulting services.
- A comparison of the SSCS and attestation standards (exhibit 2A-1).
- A flowchart that can aid in determining the applicability of consulting, attest, or other standards (exhibit 2A-2).
- Examples of consulting and attest engagements to illustrate the decision making process delineated in the flowchart (appendix 2/B).
- An example of an engagement letter to illustrate an attest service to be performed as part of a consulting services engagement (appendix 2/C).

Attributes of Attestation Services

.08 A practitioner will view many of the requirements established by the SSAE *Attestation Standards* as the same or similar to requirements in rule 201 of the AICPA Code of Professional Conduct and the SSCS. However, an attest service introduces certain attributes that generally do not exist in consulting services. These are discussed in the following paragraphs.

.09 **Parties Involved.** Consulting services generally involve two parties, the practitioner and the client, and entail a service provided to a client by the practitioner that will benefit the client directly. The parties involved in an attest service are as follows:

- *The asserter.* An individual or organization that is responsible for a written declaration or set of related declarations taken as a whole (that is, assertions). The asserter may be a client or another party.

- *The attester.* An individual or organization that expresses a conclusion about the reliability of an assertion by another party. A practitioner may perform an attestation service on assertions concerning a broad range of subjects.
- *The interested party.* An individual or organization that may rely on both the assertion and the attester in judging the credibility of the assertion. The client or another party may be the interested party.

.10 Function Performed. In providing consulting services, the practitioner is not an attester. The practitioner's findings, conclusions, and recommendations are the practitioner's own assertions. In providing consulting services, the practitioner may evaluate written assertions of others as part of the research leading to the practitioner's findings and recommendations.³

.11 In providing attestation services, the practitioner expresses a conclusion about the reliability of a written assertion of another party to add credibility to the other party's declarations. The practitioner, in effect, performs an independent examination or review and expresses a conclusion on what the asserter has stated but does not develop separate findings and conclusions.

.12 Criteria Used. Consulting services involve the practitioner's application of general business principles, subjective experience, analysis, and inferences in developing conclusions and recommendations from observations (findings). An attest service requires reasonable criteria. Even when reasonable criteria exist, the practitioner should consider whether the assertion is capable of reasonably consistent estimation or measurement using the criteria and whether competent persons using the same or similar measurement criteria should be able to obtain materially similar estimates or measurements.⁴

.13 Engagement Report. In a consulting report, which can be written or oral, the intent is to present the client with the practitioner's findings, conclusions, and recommendations. In an attestation report, which is defined as a written report in the attestation standards, the intent is to provide the client or other interested parties with a certain level of assurance about the reliability of specific written assertions. The contents of the attestation report focus on that sole purpose. Report requirements dealing with the presentation of assertions, levels of assurance, and distribution are prescribed in the *SSAE Attestation Standards*.

.14 A consulting services engagement may include an attest service if the client, or the circumstance, requires the practitioner to express a conclusion about the reliability of a specific written assertion as part of the engagement.⁵ In such cases, because of the credibility which the practitioner's conclusion may add, it is important that all reporting elements established in the

³ See the *SSAE Attest Services Related to MAS Engagements* (New York: AICPA, 1987), paragraph 5.

⁴ See the *SSAE Attestation Standards*, paragraph 17.

⁵ See the *SSAE Attest Services Related to MAS Engagements*.

SSAEs be complied with, in keeping with the level of assurance to be provided.⁶ In addition, the practitioner should issue separate reports for consulting services and attest services.⁷

Conclusions

.15 The focus of an attest service is to provide assurance on the reliability of a written assertion of another party, thus adding credibility to the written assertion. The focus of consulting services is to provide advice or technical assistance.

.16 The professional requirements for an attest service differ significantly from those for a consulting service even if one objective is similar (for example, verifying that certain software performs required functions). Determining the appropriate service to provide is the practitioner's responsibility.

.17 The practitioner determines the type of service to provide through consultation and agreement with the client. Once established, the type of service will dictate the nature of the report to issue as well as its ultimate use. The conduct of the service provided must comply with the appropriate professional standards.

.18 Depending on the engagement circumstances, the client may require or may voluntarily desire an attest service. In deciding whether to perform a consulting service, an attest service, or both, the practitioner considers the following possible alternatives:

- Perform only an attest service because a written conclusion on a written assertion made by another party will be provided, the requirements of the SSAEs can be met, and the practitioner believes the attest service is the appropriate service.
- Do not perform an attest service even if one is desired because the requirements established in the attestation standards cannot be met.
- Provide both attest and consulting services (in one engagement or in separate engagements) based on the understanding with the client if the requirements of the SSAEs can be met and the practitioner believes performing both services is appropriate.
- Recommend a consulting service if the practitioner believes an attest service is unnecessary and inappropriate. This may be done even when a written conclusion on a written assertion is requested by the client. If the client agrees to a consulting service, the practitioner will not provide a written conclusion on a written assertion of another party.

⁶ See the SSAE *Attestation Standards*.

⁷ See the SSAE *Attest Services Related to MAS Engagements*, paragraph 3.

APPENDIX 2/A

COMPARISON OF ATTESTATION STANDARDS WITH CONSULTING SERVICES STANDARDS

In differentiating between an attest service and a consulting service, the practitioner needs to understand the similarities as well as the differences between attestation standards and consulting services standards. Exhibit 2A-1 compares the SSAEs and the SSCS.

Areas of Similarity

There are a number of important similarities between attestation standards and consulting services standards. In both instances the general standards require professional competence and due professional care. They reflect the general standards in rule 201 of the AICPA's Code of Professional Conduct, which apply to all services. The attestation standards, however, focus more specifically on proficiency in the attest function as well as adequate knowledge of the subject matter of the assertion. The two attestation standards for fieldwork that address planning and supervision of work and the sufficiency of evidential matter have very similar counterparts in the general standards for all services performed by AICPA members. However, there are differences regarding the sufficiency of evidential matter that the practitioner needs to consider.

Areas of Difference

As the practitioner decides whether a particular engagement is an attest or a consulting service or that an attest service is part of a larger consulting engagement, it is necessary to understand the differences in the standards to apply in each instance. First, the general attestation standards require the practitioner to be independent, whereas consulting services standards specify that the practitioner need only be objective. This is an important distinction because, although independence includes objective consideration of the facts, a practitioner can be objective without necessarily being independent. Second, the general attestation standards set limitations on the types of assertions to which a practitioner can attest. The classification of "assertions" is not relevant to consulting engagements. Third, the general standards for all consulting services indicate the importance of having an oral or written understanding about the nature, scope, and limitations of the engagement and also specify the need to objectively communicate potential benefits to the client. These matters are not discussed in the attestation standards.

Attestation standards of reporting also differ from the consulting services standards for consulting engagements concerning the communication of results to clients. Attestation standards of reporting specify the type of report to render to the client and require that it be in writing. Consulting services standards for communicating results, on the other hand, are much more general in nature and permit either oral or written reports.

Attestation and Consulting Services Standards

Attestation Standards

General Standards

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 an engagement only if he or she has reason to believe that the following two conditions exist:
 - The assertion is capable of evaluation against reasonable criteria that either have been established by a recognized body or are stated in the presentation of the assertion in a sufficiently clear and comprehensive manner for a knowledgeable reader to be able to understand them.
 - The assertion is capable of reasonably consistent estimation or measurement using such criteria.
4. In all matters relating to the engagement, an independence in mental attitude shall be maintained by the practitioner.
5. Due professional care shall be exercised in the performance of the engagement.

Standards of Fieldwork

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.

Consulting Services Standards

General Standards

1. *Professional competence.* A member shall undertake only those engagements which he or she or the firm can reasonably expect to complete with professional competence.
2. *Due professional care.* A member shall exercise due professional care in the performance of an engagement.
3. *Planning and supervision.* A member shall adequately plan and supervise an engagement.
4. *Sufficient relevant data.* A member shall obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to an engagement.

Technical Standards

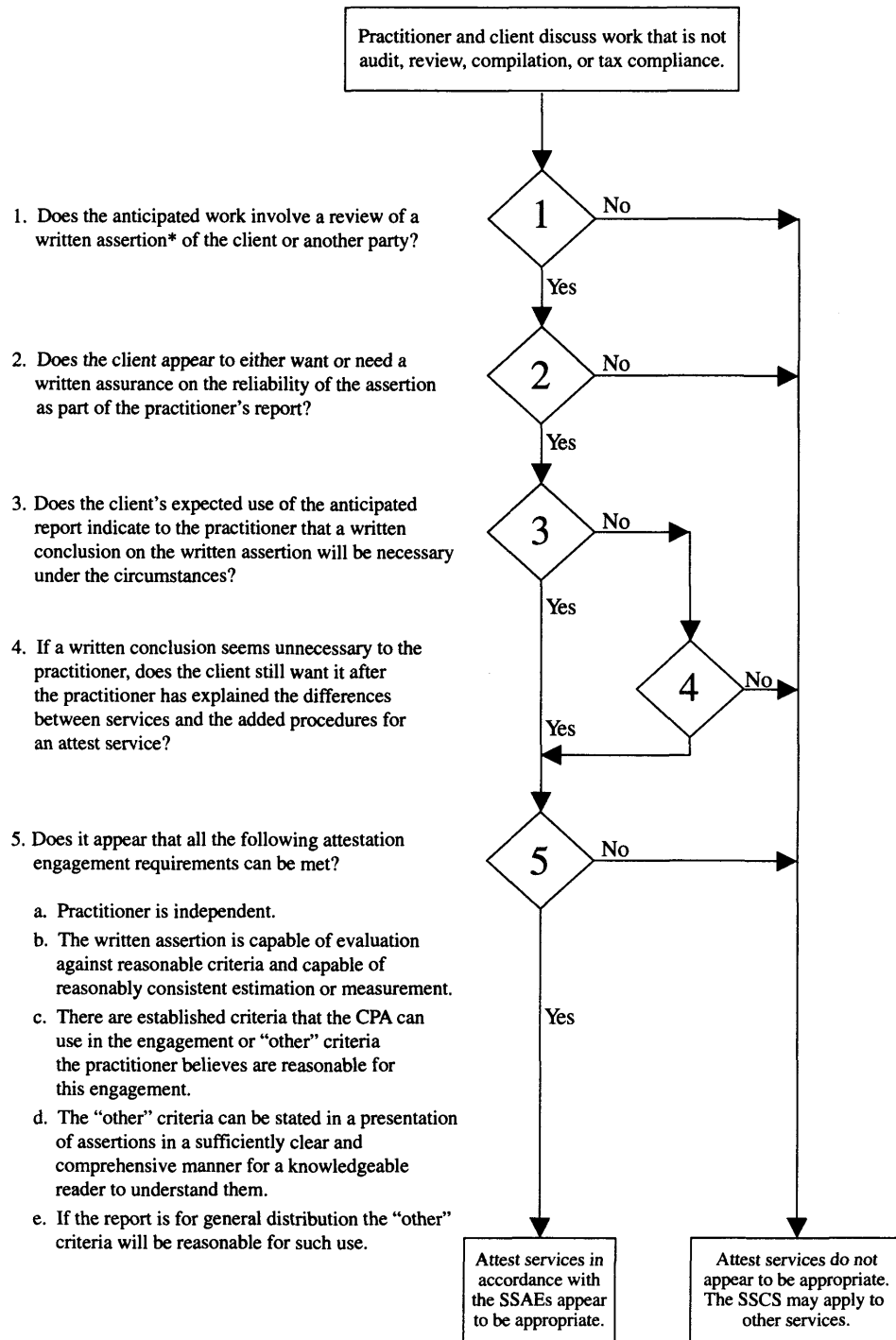
1. *Role of the consulting services practitioner.* In performing a consulting services engagement a consulting services practitioner should not assume the role of management or take any positions that might impair the practitioner's objectivity.
2. *Understanding with client.* An oral or written understanding should be reached with the client about the responsibilities of the parties and the nature, scope, and limitations of the engagement to be performed. If circumstances require a significant change during the engagement, the understanding should be modified.
3. *Client interest.* The practitioner should serve the client interest by seeking to accomplish the objectives established by the understanding with the client.

Standards of Reporting

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 whether the assertion is presented in conformity with 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 presentation of the assertion.
 4. The report on an engagement to evaluate an assertion that has been prepared in conformity with agreed-upon criteria or on an engagement to apply agreed-upon procedures should contain a statement limiting its use to the parties who have agreed upon such criteria or procedures.
4. *Communication with client.* The practitioner should inform the client of conflicts of interest, significant reservations about the engagement, and significant engagement findings and events.

Decision Alternatives Flowchart

The decision alternatives flowchart is designed to assist practitioners in identifying when an attest service, a consulting service, or both may be appropriate for a specific client situation. Other factors not included in the flowchart may influence the final decision.



* Written assertions that are forecasts or projections as defined in the Statement on Standards for Accountants' Services on Prospective Financial Information are covered by those standards and are excluded here.

APPENDIX 2/B**CASE STUDIES**

The following case studies illustrate various engagement situations in which the practitioner performs either a consulting service, an attestation service, or both.

The first case study (exhibit 2B-1) involves a business plan development engagement. This case study illustrates a situation in which the practitioner initially performs a consulting service and then provides a follow-up attest service. In the initial consulting services engagement, the CPA practitioner assists in gathering and analyzing financial data and developing the business plan, but the practitioner does not examine or review any evidence supporting the information furnished by Atlas Manufacturing Corporation and will not express any conclusion on its reliability.

The follow-up engagement (the presentation of a business plan to the bank) introduces a third party that will rely on the projected financial statements; therefore, the Statement on Standards for Accountants' Services on Prospective Financial Information applies to them. A business plan development engagement can also involve an attest service if the practitioner is asked to provide a written conclusion about certain specific elements of the plan for which there are criteria and sufficient relevant data (for example, production and sales data for the previous five years).

The second case study (exhibit 2B-2) involves a health care consulting engagement. This case study illustrates a situation in which the practitioner performs both an attestation service and a consulting service. The first part of the engagement involves an attestation service since the practitioner is required to provide the Authority with a written conclusion on a written assertion by another party (ABC Hospital) that the terms of the covenants would be met by the hospital's performance. In the second part of the engagement, the practitioner provides consulting advice to the hospital about whether to include the covenants in the bond indenture agreement.

The final case study, involving a computer feasibility and installation engagement, illustrates a situation in which the practitioner performs a consulting service to help select and install a computer system and appropriate software. This case, however, introduces the possibility of the practitioner also performing an attestation service by providing written assurance that the payroll package eventually selected will perform according to the vendor's representations. Since the use of the attestation report would be internal, for the client's use only, and the practitioner could address the client's concern without providing a written conclusion, preparing an attestation report is based on the client's election to proceed subsequent to the practitioner's explanation of added professional requirements entailing added costs.

Business Plan Development Engagement

The closely held Atlas Manufacturing Corporation makes ladies' handbags, wallets, and other personal accessories. The owner, aware that he is having cash problems, has asked CPA George Hanover to help. Hanover has advised the owner that cash problems can often be corrected through a combination of budgets, cash management, and outside financing. However, it is necessary to develop a business plan to determine what further actions are needed. The owner has engaged Hanover to assist in developing a business plan for internal use, including a forecast or projection. The owner has also asked Hanover to assist him in presenting the business plan to the bank to secure outside financing if it is needed. This will require a written report by the CPA for bank use.

Part 1 of this case study follows the flowchart provided in exhibit 2A-2 to illustrate why the engagement is a consulting service, and in part 2, it confirms that another service related to prospective financial information exists, as well as a possibility of an attest service limited to elements of the business plan. The attest service (part 2) would follow the consulting service only if the client's plan is submitted to a bank to obtain funds.

Part 1: Initial Engagement—Business Plan Development

<u>Step</u>	<u>Criteria</u>	<u>Decision</u>
1	Does the anticipated work involve a review of a written assertion of the client or another party?	No.
2	Does the client appear to either want or need a written assurance on the reliability of the assertion as part of the practitioner's report?	No.
3	Does the client's expected use of the anticipated report indicate to the practitioner that a written conclusion on the written assertion will be necessary under the circumstances?	No, if the anticipated business plan will not be used to apply for outside funding.
4	If a written conclusion seems unnecessary to the practitioner, does the client still want it after the practitioner has explained the differences between services and the added procedures for an attest service?	Not applicable.
5a	Is the practitioner independent?	Not applicable.
5b	Is the written assertion capable of evaluation against reasonable criteria and capable of reasonably consistent estimation or measurement?	Not applicable.

5c	Are there established criteria that the CPA can use in the engagement, or are there "other" criteria the practitioner believes reasonable for this engagement?	Not applicable.
5d	Can the "other" criteria be stated in the presentation of assertions in a sufficiently clear and comprehensive manner for a knowledgeable reader to understand them?	Not applicable.
5e	If the report is for general distribution, will the "other" criteria be reasonable for such use?	Not applicable.

Part 2: Follow-up Engagement—Presentation of Business Plan to Obtain Financing

<u>Step</u>	<u>Criteria</u>	<u>Decision</u>
1	Does the anticipated work involve a review of a written assertion of a client or another party?	Yes. A third-party user of the business plan is now involved, and the Statement on Standards for Accountants' Services on Prospective Financial Information applies since a client forecast or projection is included. If the practitioner is also requested to attest to other data in the plan, the following questions would have to be considered.
2	Does the client appear to either want or need a written assurance on the reliability of the assertion as part of the practitioner's report?	Yes.
3	Does the client's expected use of the anticipated report indicate to the practitioner that a written conclusion on the written assertion will be necessary under the circumstances?	Yes. In this engagement, the practitioner is asked to attest to specific quantifiable historical elements of the business plan (for example, production or sales data for the past five years). The practitioner must meet the standards for evidential matter. He or she cannot attest to the achievability of future results.

(continued)

Part 2: Follow-up Engagement—Presentation of Business Plan to Obtain Financing (continued)

- | | | |
|----|--|--|
| 4 | If a written conclusion seems unnecessary to the practitioner, does the client still want it after the practitioner has explained the differences between services and the added procedures for an attest service? | Not applicable. |
| 5a | Is the practitioner independent? | Assumed to be yes in this case. |
| 5b | Is the written assertion capable of evaluation against reasonable criteria and capable of reasonably consistent estimation or measurement? | Assumed to be yes for specific element(s) selected for the attest service. |
| 5c | Are there established criteria that the CPA can use in the engagement, or are there "other" criteria the practitioner believes reasonable for this engagement? | Assumed to be yes for specific element(s) selected for the attest service. |
| 5d | Can the "other" criteria be stated in the presentation of assertions in a sufficiently clear and comprehensive manner for a knowledgeable reader to understand them? | Not applicable. No "other" criteria are involved. |
| 5e | If the report is for general distribution, will the "other" criteria be reasonable for such use? | Not applicable. No "other" criteria are involved. |

Health Care Consulting Engagement

ABC Hospital is completing plans to finance its construction renovation program through the hospital financing authority in its state. A financial feasibility study completed by the practitioner will be included in the offering circular for the tax-exempt bonds that will be issued to finance the renovation program. (Note: The financial feasibility study would be subject to the Statement on Standards for Accountants' Services on Prospective Financial Information.)

The Authority, in conjunction with its attorney and those of the hospital, has drafted a bond indenture agreement explaining the details of the proposed financing. The proposed agreement contains several restrictive covenants dealing with minimum working capital requirements at fiscal year-end. The agreement also specifies how many days of operating expenses must be on hand at the end of each month so that the Authority can independently test them against actual results of operations over the last two fiscal years. Furthermore, ABC Hospital wants the practitioner's business advice on whether to include these covenants in the agreement for subsequent years based on anticipated changes in hospital operations both during and after the completion of the renovation program.

Accordingly, ABC Hospital has asked the practitioner to provide a written report to the Authority stating a conclusion about the reliability of ABC Hospital's assertion that, based on the historical performance of the hospital, it would meet the terms of the proposed covenants. The decisions concerning the applicability of standards is addressed under the column entitled "Part 1—Historical Analysis (Attestation Service)" in the table on the next page. ABC Hospital has also asked the practitioner to offer advice on whether or not it should agree to include such covenants in the agreement on a prospective basis (see Part 2).

This case study follows the decision flowchart provided in exhibit 2A-2 to illustrate why this engagement involves an attestation service subject to the SSAEs and a follow-up consulting service in a combined engagement. The flowchart questions are applied to each engagement objective separately.

(continued)

Health Care Consulting Engagement (continued)

		<u>Decision</u>	
<u>Step</u>	<u>Criteria</u>	<u>Part 1</u> <u>Historical Analysis</u> <u>(Attestation Service)</u>	<u>Part 2</u> <u>Inclusion of Covenants</u> <u>in Agreement</u> <u>(Consulting Service)</u>
1	Does the anticipated work involve a review of a written assertion of a client or another party?	Yes.	No.
2	Does the client appear to either want or need a written assurance on the reliability of the assertion as part of the practitioner's report?	Yes. The hospital has requested the practitioner to provide a letter to the Authority.	No. Advice is requested on whether or not the hospital should agree to the covenants.
3	Does the client's expected use of the anticipated report indicate to the practitioner that a written conclusion on the written assertion will be necessary under the circumstances?	Yes.	Not applicable.
4	If a written conclusion seems unnecessary to the practitioner, does the client still want it after the practitioner has explained the differences between services and the added procedures for an attest service?	Not applicable.	Not applicable.
5a	Is the practitioner independent?	Assumed to be yes in this case.	Not applicable.
5b	Is the written assertion capable of evaluation against reasonable criteria and capable of reasonably consistent estimation or measurement?	Yes. The covenants are specific and historical data exist to test them.	Not applicable.

5c	Are there established criteria that the CPA can use in the engagement, or are there "other" criteria the practitioner believes reasonable for this engagement?	Yes. The proposed covenants include the criteria.	Not applicable.
5d	Can the "other" criteria be stated in the presentation of assertions in a sufficiently clear and comprehensive manner for a knowledgeable reader to understand them?	Yes.	Not applicable.
5e	If the report is for general distribution, will the "other" criteria be reasonable for such use?	Yes.	Not applicable.

Computer Feasibility and Installation Engagement

The client has requested the practitioner's assistance with computer system selection and installation. The original engagement objectives were to:

- Study the feasibility of the computer system.
- Help prepare the client's requests for proposals on appropriate software and hardware from vendors.
- Install the chosen system.

No conclusions on written assertions were required for this consulting services engagement.

As the client receives the vendors' written proposals, management informs the practitioner that problems have arisen with the existing payroll system and related multijurisdiction tax withholding. Before the client purchases and installs any system, management wants the practitioner's written assurance that the software chosen can perform payroll calculations and multijurisdiction withholding as asserted in the selected vendor's written proposal.

This request is an expansion of the original engagement. Since a written assertion of another party is involved, it may or may not require an attestation. This case study also follows the decision flowchart provided in exhibit 2A-2 to illustrate why this engagement is an attestation service within a consulting services engagement and how the practitioner could have arrived at different conclusions depending on the decision made by the client at step 4 on the flowchart.

<u>Step</u>	<u>Criteria</u>	<u>Decision</u>
1	Does the anticipated work involve a review of a written assertion of a client or another party?	Yes.
2	Does the client appear to either want or need a written assurance on the reliability of the assertion as part of the practitioner's report?	Yes. The client has requested the CPA to provide written assurance on a vendor assertion concerning payroll and multijurisdiction withholding processing.
3	Does the client's expected use of the anticipated report indicate to the practitioner that a written conclusion on the written assertion will be necessary under the circumstances?	No. An attest service is not required, but the client has requested it. The practitioner should explain the difference between the consulting service and the attest service, including the added procedures entailing additional expense to the client.
4	If a written conclusion seems unnecessary to the practitioner, does the client still want it after the practitioner has explained the differences between services and the added procedures for an attest service?	Yes. If the client still desires a written conclusion on the vendor's assertion, the practitioner may proceed. If not, the practitioner may proceed with the consulting service originally requested. The report should not include a written conclusion on the reliability of the vendor's assertions. It may state that the recommended software appears to meet the client's specifications if the practitioner's research and testing so indicate. (Note: The balance of this example assumes the client still wants the attestation.)
5a	Is the practitioner independent?	Assumed to be yes in this case.
5b	Is the written assertion capable of evaluation against reasonable criteria and capable of reasonably consistent estimation or measurement?	Yes, since testing the software based on the criteria will show if it can properly handle multi-jurisdiction withholding and other payroll functions.

(continued)

Computer Feasibility and Installation Engagement (continued)

<u>Step</u>	<u>Criteria</u>	<u>Decision</u>
5c	Are there established criteria that the CPA can use in the engagement, or are there "other" criteria the practitioner believes reasonable for this engagement?	Yes. The criteria are those established by various state agencies and payroll-taxing authorities.
5d	Can the "other" criteria be stated in the presentation of assertions in a sufficiently clear and comprehensive manner for a knowledgeable reader to understand them?	Not applicable. (Since established criteria promulgated by state and taxing authorities are to be used, details need not be included in the presentation of assertions; only a reference to the established criteria needs to be included.)
5e	If the report is for general distribution, will the "other" criteria be reasonable for such use?	Not applicable.

APPENDIX 2/C

ILLUSTRATIVE ENGAGEMENT LETTER

The following illustrative engagement letter addresses an attestation service the consulting services practitioner provides as part of an overall consulting service. The client that requested the attestation service wants assurance that the accounting and payroll system under consideration can properly calculate the payroll and multijurisdiction withholding, as asserted by the selected vendor in a written proposal.

In this illustration, italics identify references to the attestation portion of the engagement. This letter is only an example, and it is not intended as a model.

[CPA Firm Letterhead]

[Date]

Mr. Joe Thompson
President
XYZ Corporation
1000 Main Street
Anywhere, USA

Dear Mr. Thompson:

We appreciate the confidence you expressed by engaging us to assist your organization in selecting and installing a computer system to handle accounting and payroll functions. In response to your concerns, we will determine whether the selected vendor's representations about the payroll system are valid before continuing with the engagement.

We have already conducted a preliminary survey of your present accounting and payroll systems and procedures. We have also conducted a preliminary software evaluation based on your needs as well as your requirement that the software package run on an ABC personal computer.

Engagement Objectives

The objectives of our consulting engagement include the following:

- Study the feasibility of the computer system.
- Help prepare XYZ's requests for proposals from vendors on appropriate software and hardware.
- Install and test the chosen system.
- Provide user training.

Another engagement objective is to provide an attest service, which differs from our consulting services. You have requested that we provide you with a written assurance about the vendor's written assertion. The assertion states that the payroll package will treat multijurisdiction withholding properly.

This service, in accordance with professional standards, will incorporate certain elements not required for our consulting services. In this portion of the engagement, we will determine whether the statements of the selected vendor about the software's payroll calculation function are accurate. Our written conclusions will be based on results of our tests using appropriate criteria, but we will not guarantee that you will achieve the same results.

Engagement Scope

The engagement scope includes the preliminary feasibility study, the actual installation, and the user training. We estimate the engagement will last eight weeks. It will begin on July 1, 19XX, and end on August 28, 19XX.

We will perform our work in accordance with the Statement on Standards for Consulting Services and the Statements on Standards for Attestation Engagements, as promulgated by the American Institute of Certified Public Accountants.

Based on our understanding of your engagement requirements, we will not proceed with the engagement without providing written assurance on the payroll system. If we cannot provide such assurance, we shall immediately confer with XYZ Corporation management about the engagement until a mutually acceptable modification to the engagement scope has been made, or further investigation uncovers an acceptable payroll package. If you then desire the engagement to proceed, we will draft for your approval a modified engagement letter, reflecting the change in scope and the new understanding we have reached about the work we will perform.

Engagement Approach

During the feasibility study we will review your current facilities, procedures, and staff members' responsibilities. We will also interview your staff affected by the engagement. In addition, we will document the existing work flow and its problems as well as the potential solutions.

To efficiently complete the engagement, both parties need a clear understanding of their respective roles. We will develop a work plan that includes a timetable for completion of tasks.

After finishing the feasibility study, we will conduct the vendor selection process. We will analyze which hardware and software appear to best meet your needs, as determined by discussions with you subsequent to the study. Vendor system and software information and our knowledge of available computers and software will enable us to recommend one or more alternatives to you.

Using the multijurisdiction withholding criteria you agreed to, we will test the payroll processing capabilities of the software you select before proceeding with implementation. This testing phase will include inputting a representative two-week payroll period with all the necessary supplementary information. Built-in minimum and maximum thresholds, as well as other test checks, will be incorporated to ensure that proper controls exist.

Once this has been accomplished and the program results prove satisfactory, we will proceed with the implementation.

Engagement Staffing and Scheduling

As we stated earlier, the project will begin on July 1, 19XX, and will require eight weeks to complete, assuming full cooperation and participation of XYZ Corporation personnel.

Engagement Review

We will meet with you each week to discuss the progress made. If there is any difficulty, or if changes become necessary to the engagement's scope or objectives, we can determine and agree to revisions of the engagement plan.

Engagement Output

The finished product will include installation and training for the new accounting and payroll system and a written report on recommendations for personnel duties. *During the engagement we will submit a separate attest report providing a level of assurance on the payroll system, as required by the American Institute of Certified Public Accountants. This separate attest report is intended solely for use by the management of XYZ Corporation.*

Anticipated Results and Potential Benefits

If implemented and operated as anticipated, the new systems would result in—

- Timely and accurate monthly financial reporting.
- Timely and accurate processing of the payroll.
- Improved audit trail capabilities.
- Reduction in duplication of procedures.

Fees, Billing Arrangements, and Payments

Our fees for this engagement are based on the time actually spent at our standard billing rates, plus any out-of-pocket expenses, at cost. The estimated cost of the project is \$XX,XXX. A retainer of \$X,XXX is due on your acceptance. The remainder of the fee will be billed on August 28, 19XX.

Should anything arise that would adversely affect performance of the engagement in the prescribed time or within the aforementioned fee range, we will notify you immediately.

2/115-22

If the foregoing is acceptable to you, please return a signed copy of this letter to confirm the engagement.

Sincerely,

Accepted by

APPENDIX 2/D

March 1986

**STATEMENT ON STANDARDS
FOR ATTESTATION ENGAGEMENTS**

*Issued by the Auditing Standards Board
and the Accounting and Review Services Committee*

Attestation Standards

Summary

This Statement provides that an accountant who is engaged to issue or does issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party should either examine, review, or apply agreed-upon procedures to the assertion in accordance with this Statement.

Specifically, the Statement—

- a. Defines an attest engagement.
- b. Provides standards for all attest engagements, which are a natural extension of (but do not supersede) the ten generally accepted auditing standards (GAAS).
- c. Makes explicit five preconditions for attest services to be performed:
 - The practitioner has adequate training and proficiency in the attest function.
 - The practitioner has adequate knowledge of the subject matter.
 - There are reasonable measurement and disclosure criteria concerning the subject matter.
 - The assertions are capable of reasonably consistent estimation or measurement using such criteria.
 - The practitioner is independent.
- d. Provides for two levels of attest assurance that can be reported for general distribution.
 - Positive assurance—In reports that express conclusions on the basis of an "examination."
 - Negative assurance—In reports that express conclusions on the basis of a "review."
- e. Provides for attest services based on agreed-upon procedures or agreed-upon criteria as long as the report is restricted to the parties who agreed upon the procedures or criteria.

Introduction

The accompanying "attestation standards" provide guidance and 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.

For years, attest services generally were limited to expressing a positive opinion on historical financial statements on the basis of an examination in accordance with generally accepted auditing standards (GAAS). However, CPAs increasingly have been requested to provide, and have been

providing, assurance on representations other than historical financial statements and in forms other than the positive opinion. In responding to these needs, certified public accountants have been able to generally apply the basic concepts underlying GAAS to these attest services. As the range of attest services has grown, however, it has become increasingly difficult to do so.

Consequently, the main objective of adopting these attestation standards and the related interpretive commentary is to provide a general framework for and set reasonable boundaries around the attest function. As such, the standards and commentary (a) provide useful and necessary guidance to certified public accountants engaged to perform new and evolving attest services and (b) guide AICPA standard-setting bodies in establishing, if deemed necessary, interpretive standards for such services.

The attestation standards are a natural extension of the ten generally accepted auditing standards. Like the auditing standards, the attestation standards deal with the need for technical competence, independence in mental attitude, due professional care, adequate planning and supervision, sufficient evidence, and appropriate reporting; however, they are much broader in scope. (The eleven attestation standards are listed below.) Such standards apply to a growing array of attest services. These services include, for example, reports on descriptions of systems of internal accounting control; on descriptions of computer software; on compliance with statutory, regulatory, and contractual requirements; on investment performance statistics; and on information supplementary to financial statements. Thus, the standards have been developed to be responsive to a changing environment and the demands of society.

These attestation standards apply only to attest services rendered by a certified public accountant in the practice of public accounting—that is, a practitioner as defined in footnote 1 in paragraph .01.

The attestation standards do not supersede any of the existing standards in Statements on Auditing Standards (SASs), Statements on Standards for Accounting and Review Services (SSARs), and Statement on Standards for Accountants' Services on Prospective Financial Information. Therefore, the practitioner who is engaged to perform an engagement subject to these existing standards should follow such standards.

Attestation Standards

General Standards

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 an engagement only if he or she has reason to believe that the following two conditions exist:
 - The assertion is capable of evaluation against reasonable criteria that either have been established by a recognized body or are stated in the presentation of the assertion in a sufficiently clear and comprehensive manner for a knowledgeable reader to be able to understand them.
 - The assertion is capable of reasonably consistent estimation or measurement using such criteria.
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.

Standards of Fieldwork

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.

Standards of Reporting

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 whether the assertion is presented in conformity with 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 presentation of the assertion.
4. The report on an engagement to evaluate an assertion that has been prepared in conformity with agreed-upon criteria or on an engagement to apply agreed-upon procedures should contain a statement limiting its use to the parties who have agreed upon such criteria or procedures.

Statement

Attest Engagement

.01 When a CPA in the practice of public accounting¹ (herein referred to as "a practitioner") performs an attest engagement, as defined below, the engagement is subject to the attestation standards and related interpretive commentary in this pronouncement and to any other authoritative interpretive standards that apply to the particular engagement.²

¹ A "certified public accountant in the practice of public accounting" includes any of the following who perform or assist in the attest engagement: (1) an individual public accountant; (2) a proprietor, partner, or shareholder in a public accounting firm; (3) a full-or part-time employee of a public accounting firm; and (4) an entity (for example, partnership, corporation, trust, joint venture, or pool) whose operating, financial, or accounting policies can be significantly influenced by one of the persons described in (1) through (3) or by two or more of such persons if they choose to act together.

² Existing authoritative standards that might apply to a particular attest engagement include SASs, SSARSs, and Statement on Standards for Accountants' Services on Prospective Financial Information. In addition, authoritative interpretive standards for specific types of attest engagements, including standards concerning the subject matter of the assertions presented, may be issued in the future by authorized AICPA senior technical committees. Furthermore, when a practitioner undertakes an attest engagement for the benefit of a government body or agency and agrees to follow specified government standards, guides, procedures, statutes, rules, and regulations, the practitioner is obliged to follow this Statement and the applicable authoritative interpretive standards as well as those governmental requirements.

An attest engagement is one in which a practitioner is engaged to issue or does issue a written communication that expresses a conclusion about the reliability of a written assertion³ that is the responsibility of another party.⁴

.02 Examples of professional services typically provided by practitioners that would not be considered attest engagements include—

- a. Management consulting engagements in which the practitioner is engaged to provide advice or recommendations to a client.
- b. Engagements in which the practitioner is engaged to advocate a client's position—for example, tax matters being reviewed by the Internal Revenue Service.
- c. Tax engagements in which a practitioner is engaged to prepare tax returns or provide tax advice.
- d. Engagements in which the practitioner compiles financial statements, because he 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.
- e. 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.
- f. Engagements in which a practitioner is engaged to testify as an expert witness in accounting, auditing, taxation, or other matters, given certain stipulated facts.
- g. Engagements in which a practitioner is engaged to provide an expert opinion on certain points of principle, such as the application of laws or accounting standards, given specific facts provided by another party so long as the expert opinion does not express a conclusion about the reliability of the facts provided by the other party.

.03 The practitioner who does not explicitly express a conclusion about the reliability of an assertion that is the responsibility of another party should be aware that there may be circumstances in which such a conclusion could be reasonably inferred. For example, if the practitioner issues a report that includes an enumeration of procedures that could reasonably be expected to provide assurance about an assertion, the practitioner may not be able to avoid the inference that the report is an attest report merely by omitting an explicit conclusion on the reliability of the assertion.

.04 The practitioner who has assembled or assisted in assembling an assertion should not claim to be the asserter if the assertion is materially dependent on the actions, plans, or assumptions of some other individual or group. In such a situation, that individual or group is the "asserter," and the practitioner will be viewed as an attester if a conclusion about the reliability of the assertion is expressed.

³ An *assertion* is any declaration, or set of related declarations taken as a whole, by a party responsible for it.

⁴ The term *attest* and its variants, such as *attesting* and *attestation*, are used in a number of state accountancy laws, and in regulations issued by State Boards of Accountancy under such laws, for different purposes and with different meanings from those intended by this Statement. Consequently, the definition of attest engagement set out in this paragraph, and the attendant meaning of *attest* and *attestation* as used throughout the Statement should not be understood as defining these terms, and similar terms, as they are used in any law or regulation, nor as embodying a common understanding of the terms which may also be reflected in such laws or regulations.

.05 An attest engagement may be part of a larger engagement—for example, a feasibility study or business acquisition study that includes an examination of prospective financial information. In such circumstances, these standards apply only to the attest portion of the engagement.

General Standards

.06 The first general standard is—*The engagement shall be performed by a practitioner or practitioners having adequate technical training and proficiency in the attest function.*

.07 Performing attest services is different from preparing and presenting an assertion. The latter involves collecting, classifying, summarizing, and communicating information: this usually entails reducing a mass of detailed data to a manageable and understandable form. On the other hand, performing attest services involves gathering evidence to support the assertion and objectively assessing the measurements and communications of the asserter. Thus, attest services are analytical, critical, investigative, and concerned with the basis and support for the assertions.

.08 The attainment of proficiency as an attester begins with formal education and extends into subsequent experience. To meet the requirements of a professional, the attester's training should be adequate in technical scope and should include a commensurate measure of general education.

.09 The second general standard is—*The engagement shall be performed by a practitioner or practitioners having adequate knowledge of the subject matter of the assertion.*

.10 A practitioner may obtain adequate knowledge of the subject matter to be reported on through formal or continuing education including self-study or through practical experience. However, this standard does not necessarily require a practitioner to personally acquire all of the necessary knowledge of the subject matter to be qualified to judge an assertion's reliability. This knowledge may be met, in part, through the use of one or more specialists on a particular attest engagement if the practitioner has sufficient knowledge of the subject matter (a) to communicate to the specialist the objectives of the work and (b) to evaluate the specialist's work to determine if the objectives were achieved.

.11 The third general standard is—*The practitioner shall perform an engagement only if he or she has reason to believe that the following two conditions exist:*

- a. *The assertion is capable of evaluation against reasonable criteria that either have been established by a recognized body or are stated in the presentation of the assertion in a sufficiently clear and comprehensive manner for a knowledgeable reader to be able to understand them.*
- b. *The assertion is capable of reasonably consistent estimation or measurement using such criteria.*

.12 The attest function should be performed only when it can be effective and useful. Practitioners should have a reasonable basis for believing that a meaningful conclusion can be provided on an assertion.

.13 The first condition requires an assertion to have reasonable criteria against which it can be evaluated. Criteria promulgated by a body designated by Council under the AICPA Code of Professional Ethics are, by definition, considered to be reasonable criteria for this purpose. Criteria issued by regulatory agencies and other bodies composed of experts that follow due-process procedures, including

procedures for broad distribution of proposed criteria for public comment, normally should also be considered reasonable criteria for this purpose.

.14 However, criteria established by industry associations or similar groups that do not follow due process or do not as clearly represent the public interest should be viewed more critically. Although established and recognized in some respects, such criteria should be considered similar to measurement and disclosure criteria that lack authoritative support, and the practitioner should evaluate whether they are reasonable. Such criteria should be stated in the presentation of the assertion in a sufficiently clear and comprehensive manner for knowledgeable readers to be able to understand them.

.15 Reasonable criteria are those that yield useful information. The usefulness of information depends on an appropriate balance between relevance and reliability. Consequently, in assessing the reasonableness of measurement and disclosure criteria, the practitioner should consider whether the assertions generated by such criteria have an appropriate balance of the following characteristics.

a. Relevance

- *Capacity to make a difference in a decision*—The assertions are useful in forming predictions about the outcomes of past, present, and future events or in confirming or correcting prior expectations.
- *Ability to bear upon uncertainty*—The assertions are useful in confirming or altering the degree of uncertainty about the result of a decision.
- *Timeliness*—The assertions are available to decision makers before they lose their capability to influence decisions.
- *Completeness*—The assertions do not omit information that could alter or confirm a decision.
- *Consistency*—The assertions are measured and presented in materially the same manner in succeeding time periods or (if material inconsistencies exist) changes are disclosed, justified, and, where practical, reconciled to permit proper interpretations of sequential measurements.

b. Reliability

- *Representational faithfulness*—The assertions correspond or agree with the phenomena they purport to represent.
- *Absence of unwarranted inference of certainty or precision*—The assertions may sometimes be presented more appropriately through the use of ranges or indications of the probabilities attaching to different values rather than as single point estimates.
- *Neutrality*—The primary concern is the relevance and reliability of the assertions rather than their potential effect on a particular interest.
- *Freedom from bias*—The measurements involved in the assertions are equally likely to fall on either side of what they represent rather than more often on one side than the other.

.16 Some criteria are reasonable in evaluating a presentation of assertions only for a limited number of specified users who participated in their establishment. For instance, criteria set forth in a purchase agreement for the preparation and presentation of financial statements of a company to be acquired, when materially different from generally accepted accounting principles (GAAP), are reasonable only when reporting to the parties to the agreement.

.17 Even when reasonable criteria exist, the practitioner should consider whether the assertion is also capable of reasonably consistent estimation or measurement using those criteria.⁵ Competent persons using the same or similar measurement and disclosure criteria ordinarily should be able to obtain materially similar estimates or measurements. However, competent persons will not always reach the same conclusion because (a) such estimates and measurements often require the exercise of considerable professional judgment and (b) a slightly different evaluation of the facts could yield a significant difference in the presentation of a particular assertion. An assertion estimated or measured using criteria promulgated by a body designated by Council under the AICPA Code of Professional Ethics is considered, by definition, to be capable of reasonably consistent estimation or measurement.

.18 A practitioner should not provide assurance on an assertion that is so subjective (for example, the "best" software product from among a large number of similar products) that people having competence in and using the same or similar measurement and disclosure criteria would not ordinarily be able to obtain materially similar estimates or measurements. A practitioner's assurance on such an assertion would add no real credibility to the assertion; consequently, it would be meaningless at best and could be misleading.

.19 The second condition does not presume that all competent persons would be expected to select the same measurement and disclosure criteria in developing a particular estimate or measurement (for example, the provision for depreciation on plant and equipment). However, assuming the same measurement and disclosure criteria were used (for example, the straight-line method of depreciation), materially similar estimates or measurements would be expected to be obtained.

.20 Furthermore, for the purpose of assessing whether particular measurement and disclosure criteria can be expected to yield reasonably consistent estimates or measurements, materiality must be judged in light of the expected range of reasonableness for a particular assertion. For instance, "soft" information, such as forecasts or projections, would be expected to have a wider range of reasonable estimates than "hard" data, such as the quantity of a particular item of inventory existing at a specific location.

.21 The second condition applies equally whether the practitioner has been engaged to perform an "examination" or a "review" of a presentation of assertions (see the second reporting standard). Consequently, it is inappropriate to perform a review engagement where the practitioner concludes that an examination cannot be performed because competent persons using the same or similar measurement and disclosure criteria would not ordinarily be able to obtain materially similar estimates or measurements. For example, practitioners should not provide negative assurance on the assertion that a particular software product is the "best" among a large number of products because they could not provide the highest level of assurance (a positive opinion) on such an assertion (were they engaged to do so) because of its inherent subjectivity.

.22 The fourth general standard is—*In all matters relating to the engagement, an independence in mental attitude shall be maintained by the practitioner or practitioners.*

.23 The practitioner should maintain the intellectual honesty and impartiality necessary to reach an unbiased conclusion about the reliability of an assertion. This is a cornerstone of the attest function.

⁵ Criteria may yield quantitative or qualitative estimates or measurements.

Consequently, practitioners performing an attest service should not only be independent in fact, but also should avoid situations that may impair the appearance of independence.

.24 In the final analysis, independence means objective consideration of facts, unbiased judgments, and honest neutrality on the part of the practitioner in forming and expressing conclusions. It implies not the attitude of a prosecutor but a judicial impartiality that recognizes an obligation for fairness. Independence presumes an undeviating concern for an unbiased conclusion about the reliability of an assertion no matter what the assertion may be.

.25 The fifth general standard is—*Due professional care shall be exercised in the performance of the engagement.*

.26 Due care imposes a responsibility on each practitioner involved with the engagement to observe each of the attestation standards. Exercise of due care requires critical review at every level of supervision of the work done and the judgment exercised by those assisting in the engagement, including the preparation of the report.

.27 *Cooley on Torts*, a treatise that has stood the test of time, describes a professional's obligation for due care as follows:

Every man who offers his services to another and is employed, assumes the duty to exercise in the employment such skill as he possesses with reasonable care and diligence. In all those employments where peculiar skill is requisite, if one offers his services, he is understood as holding himself out to the public as possessing the degree of skill commonly possessed by others in the same employment, and if his pretensions are unfounded, he commits a species of fraud upon every man who employs him in reliance on his public profession. But no man, whether skilled or unskilled, undertakes that the task he assumes shall be performed successfully and without fault or error; he undertakes for good faith and integrity, but not for infallibility, and he is liable to his employer for negligence, bad faith, or dishonesty, but not for losses consequent upon mere errors of judgment.⁶

Standards of Fieldwork

.28 The first standard of fieldwork is—*The work shall be adequately planned and assistants, if any, shall be properly supervised.*

.29 Proper planning and supervision contribute to the effectiveness of attest procedures. Proper planning directly influences the selection of appropriate procedures and the timeliness of their application, and proper supervision helps ensure that planned procedures are appropriately applied.

⁶ D. Haggard, *Cooley on Torts*, 472 (4th ed., 1932).

.30 Planning an attest engagement involves developing an overall strategy for the expected conduct and scope of the engagement. To develop such a strategy, practitioners need to have sufficient knowledge to enable them to understand adequately the events, transactions, and practices that, in their judgment, have a significant effect on the presentation of the assertions.

.31 Factors to be considered by the practitioner in planning an attest engagement include (a) the presentation criteria to be used, (b) the anticipated level of attestation risk⁷ related to the assertions on which he or she will report, (c) preliminary judgments about materiality levels for attest purposes, (d) the items within a presentation of assertions that are likely to require revision or adjustment, (e) conditions that may require extension or modification of attest procedures, and the nature of the report expected to be issued.

.32 The nature, extent, and timing of planning will vary with the nature and complexity of the assertions and the practitioner's prior experience with the asserter. As part of the planning process, the practitioner should consider the nature, extent, and timing of the work to be performed to accomplish the objectives of the attest engagement. Nevertheless, as the attest engagement progresses, changed conditions may make it necessary to modify planned procedures.

.33 Supervision involves directing the efforts of assistants who participate in accomplishing the objectives of the attest engagement and determining whether those objectives were accomplished. Elements of supervision include instructing assistants, staying informed of significant problems encountered, reviewing the work product and dealing with differences of opinion among personnel. The extent of supervision appropriate in a given instance depends on many factors, including the nature and complexity of the subject matter and the qualifications of the persons performing the work.

.34 Assistants should be informed of their responsibilities, including the objectives of the procedures that they are to perform and matters that may affect the nature, extent, and timing of such procedures. The practitioner with final responsibility for the engagement should direct assistants to bring to his or her attention significant questions raised during the attest engagement so that their significance may be assessed.

.35 The work performed by each assistant should be reviewed to determine if it was adequately performed and to evaluate whether the results are consistent with the conclusions to be presented in the practitioner's report.

.36 The second standard of fieldwork is—*Sufficient evidence shall be obtained to provide a reasonable basis for the conclusion that is expressed in the report.*

.37 Selecting and applying procedures that will accumulate evidence that is sufficient in the circumstances to provide a reasonable basis for the level of assurance to be expressed in the attest report requires the careful exercise of professional judgment. A broad array of available procedures may be applied in an attest engagement. In establishing a proper combination of procedures to appropriately

⁷ *Attestation risk* is the risk that the practitioner may unknowingly fail to appropriately modify his or her attest report on an assertion that is materially misstated. It consists of (a) the risk (consisting of inherent risk and control risk) that the assertion contains errors that could be material and (b) the risk that the practitioner will not detect such errors (detection risk).

restrict attestation risk, the practitioner should consider the following presumptions, bearing in mind that they are not mutually exclusive and may be subject to important exceptions.

- a. Evidence obtained from independent sources outside an entity provides greater assurance of an assertion's reliability than evidence secured solely from within the entity.
- b. Information obtained from the independent attester's direct personal knowledge (such as through physical examination, observation, computation, operating tests, or inspection) is more persuasive than information obtained indirectly.
- c. Assertions developed under effective internal controls are more reliable than those developed in the absence of internal controls.

.38 Thus, in the hierarchy of available attest procedures, those that involve search and verification (for example, inspection, confirmation, or observation), particularly when using independent sources outside the entity, are generally more effective in reducing attestation risk than those involving internal inquiries and comparisons of internal information (for example, analytical procedures and discussions with individuals responsible for the assertion). On the other hand, the latter are generally less costly to apply.

.39 In an attest engagement designed to provide the highest level of assurance on an assertion (an "examination"), the practitioner's objective is to accumulate sufficient evidence to limit attestation risk to a level that is, in the practitioner's professional judgment, appropriately low for the high level of assurance that may be imparted by his or her report. In such an engagement, a practitioner should select from all available procedures—that is, procedures that assess inherent and control risk and restrict detection risk—any combination that can limit attestation risk to such an appropriately low level.

.40 In a limited assurance engagement (a "review"), the objective is to accumulate sufficient evidence to limit attestation risk to a moderate level. To accomplish this, the types of procedures performed generally are limited to inquiries and analytical procedures (rather than also including search and verification procedures).

.41 Nevertheless, there will be circumstances when inquiry and analytical procedures (a) cannot be performed, (b) are deemed less efficient than other procedures, or (c) yield evidence indicating that the assertion may be incomplete or inaccurate. In the first circumstance, the practitioner should perform other procedures he or she believes can provide him or her with a level of assurance equivalent to that which inquiries and analytical procedures would have provided. In the second circumstance, the practitioner may perform other procedures that he or she believes would be more efficient to provide him or her with a level of assurance equivalent to that which inquiries and analytical procedures would provide. In the third circumstance, the practitioner should perform additional procedures.

.42 The extent to which attestation procedures will be performed should be based on the level of assurance to be provided and the practitioner's consideration of (a) the nature and materiality of the information to the presentation of assertions taken as a whole, (b) the likelihood of misstatements, (c) knowledge obtained during current and previous engagements, (d) the assenter's competence in the subject matter of the assertion, (e) the extent to which the information is affected by the assenter's judgment, and (f) inadequacies in the assenter's underlying data.

.43 This standard also covers engagements designed solely to meet the needs of specified users who have participated in establishing the nature and scope of the engagement. In connection with those engagements, the practitioner is required to perform only those procedures that have been designed or agreed to by such users. Specified users include persons and entities who have participated in establishing the nature and scope of the attest engagement either directly or through a designated representative (for example, a lawyer, lead underwriter, trustee, or supervisory government agency).

.44 The practitioner's procedures generally may be as limited or extensive as the specified users desire; however, mere reading of the assertions does not constitute a procedure sufficient to permit a practitioner to report on the results of applying agreed-upon procedures to a presentation of assertions.

Standards of Reporting

.45 The first standard of reporting is—*The report shall identify the assertion being reported on and state the character of the engagement.*

.46 The practitioner who accepts an attest engagement should issue a report on the assertions or withdraw from the attest engagement. When a report is issued, the assertions should be identified by referring to a separate presentation of assertions that is the responsibility of the asserter. The presentation of assertions should generally be bound with or accompany the practitioner's report. Because the asserter's responsibility for the assertions should be clear, it is ordinarily not sufficient merely to include the assertions in the practitioner's report.

.47 The statement of the character of an attest engagement that is designed to result in a general-distribution report includes two elements: (a) a description of the nature and scope of the work performed and (b) a reference to the professional standards governing the engagement. When the form of the statement is prescribed in authoritative interpretive standards (for example, an examination in accordance with GAAS), that form should be used in the practitioner's report. However, when no such interpretive standards exist, (1) the terms *examination* and *review* should be used to describe engagements to provide, respectively the highest level and a moderate level of assurance, and (2) the reference to professional standards should be accomplished by referring to "standards established by the American Institute of Certified Public Accountants."

.48 The statement of the character of an attest engagement in which the practitioner applies agreed-upon procedures should refer to conformity with the arrangements made with the specified user(s). Such engagements are designed to accommodate the specific needs of the parties in interest and should be described by identifying the procedures agreed upon by such parties.

.49 The second standard of reporting is—*The report shall state the practitioner's conclusion about whether the assertion is presented in conformity with the established or stated criteria against which it was measured.*

.50 The practitioner should consider the concept of materiality in applying this standard. In expressing a conclusion on the conformity of a presentation of assertions with established or stated criteria, the practitioner should consider the omission or misstatement of an individual assertion to be material if the magnitude of the omission or misstatement—individually or when aggregated with other omissions or misstatements—is such that a reasonable person relying on the presentation of assertions

would be influenced by the inclusion or correction of the individual assertion. The relative, rather than absolute, size of an omission or misstatement determines whether it is material in a given situation.

.51 General-distribution attest reports should be limited to two levels of assurance: one based on a reduction of attestation risk to an appropriately low level (an "examination") and the other based on a reduction of attestation risk to a moderate level (a "review").

.52 In an engagement to achieve the highest level of assurance (an "examination"), the practitioner's conclusion should be expressed in the form of a positive opinion. When attestation risk has been reduced only to a moderate level (a "review"), the conclusion should be expressed in the form of negative assurance.

Examination

.53 When expressing a positive opinion, the practitioner should clearly state whether, in his or her opinion, the presentation of assertions is presented in conformity with established or stated criteria. Reports expressing a positive opinion on a presentation of assertions taken as a whole, however, may be qualified or modified for some aspect of the presentation or the engagement (see the third reporting standard). In addition, such reports may emphasize certain matters relating to the attest engagement or the presentation of assertions.

.54 The following is an illustration of an examination report that expresses an unqualified opinion on a presentation of assertions, assuming that no specific report form has been prescribed in authoritative interpretive standards.

We have examined the accompanying *[identify the presentation of assertions—for example, Statement of Investment Performance Statistics of XYZ Fund for the year ended December 31, 19X1]*. Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary in the circumstances.

[Additional paragraph(s) may be added to emphasize certain matters relating to the attest engagement or the presentation of assertions.]

In our opinion, the *[identify the presentation of assertions—for example, Statement of Investment Performance Statistics]* referred to above presents *[identify the assertion—for example, the investment performance of XYZ Fund for the year ended December 31, 19X1]* in conformity with *[identify established or stated criteria—for example, the measurement and disclosure criteria set forth in Note 1]*.

.55 When the presentation of assertions has been prepared in conformity with specified criteria that have been agreed upon by the asserter and the user, the practitioner's report should also contain—

- a. A statement of limitations on the use of the report because it is intended solely for specified parties (see the fourth reporting standard).
- b. An indication, when applicable, that the presentation of assertions differs materially from that which would have been presented if criteria for the presentation of such assertions for general distribution had been followed in its preparation (for example, financial statements prepared in

accordance with criteria specified in a contractual arrangement may differ materially from statements prepared in conformity with GAAP).

Review

.56 In providing negative assurance, the practitioner's conclusion should state whether any information came to the practitioner's attention on the basis of the work performed that indicates that the assertions are not presented in all material respects in conformity with established or stated criteria. (As discussed more fully in the commentary to the third reporting standard, if the assertions are not modified to correct for any such information that comes to the practitioner's attention, such information should be described in the practitioner's report.)

.57 A practitioner's negative assurance report may also comment on or emphasize certain matters relating to the attest engagement or the presentation of assertions. Furthermore, the practitioner's report should—

- a. Indicate that the work performed was less in scope than an examination.
- b. Disclaim a positive opinion on the assertions.
- c. Contain the additional statements noted in paragraph .55 when the presentation of assertions has been prepared in conformity with specified criteria that have been agreed-upon by the asserter and user(s).

.58 The following is an illustration of a review report that expresses negative assurance, where no exceptions have been found, assuming that no specific report form has been prescribed in authoritative interpretive standards:

We have reviewed the accompanying *[identify the presentation of assertions—for example, Statement of Investment Performance Statistics of XYZ Fund for the year ended December 31, 19X1]*. Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants.

A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the *[identify the presentation of assertions—for example, Statement of Investment Performance Statistics]*. Accordingly, we do not express such an opinion.

[Additional paragraph(s) may be added to emphasize certain matters relating to the attest engagement or the presentation of assertions.]

Based on our review, nothing came to our attention that caused us to believe that the accompanying *[identify the presentation of assertions—for example, Statement of Investment Performance Statistics]* is not presented in conformity with *[identify the established or stated criteria—for example, the measurement and disclosure set forth in Note 1]*.

Agreed-upon Procedures

.59 A practitioner's conclusion on the results of applying agreed-upon procedures to a presentation of assertions should be in the form of a summary of findings, negative assurance, or both. Furthermore, the practitioner's report should contain—

- a. A statement of limitations on the use of the report because it is intended solely for the use of specified parties (see the fourth reporting standard).
- b. A summary or list of the specific procedures performed (or reference thereto) to notify the reader what the reported findings or negative assurance are based on.

.60 A practitioner's report on the application of agreed-upon procedures ordinarily should also indicate that the work performed was less in scope than an examination and disclaim a positive opinion on the assertions. Furthermore, when the presentation of assertions has been prepared in conformity with specified criteria that have been agreed upon by the asserter and user(s), the practitioner's report should, when applicable, contain an indication that the presentation of assertions differs materially from that which would have been presented if criteria for the presentation of such assertions for general distribution had been followed in its preparation.

.61 The level of assurance provided in a report on the application of agreed-upon procedures depends on the nature and scope of the practitioner's procedures as agreed upon with the specified parties to whom the report is restricted. Furthermore, such parties must understand that they take responsibility for the adequacy of the attest procedures (and, therefore, the amount of assurance provided) for their purposes.

.62 The following is an illustration of an agreed-upon procedures report where the procedures are enumerated rather than referred to and where both a summary of findings and negative assurance are included. Either the summary of findings, if no exceptions are found, or negative assurance could be omitted.

To ABC Inc. and XYZ Fund

We have applied the procedures enumerated below to the accompanying [*identify the presentation of assertions—for example, Statement of Investment Performance Statistics of XYZ Fund for the year ended December 31, 19X1*]. These procedures, which were agreed to by ABC Inc. and XYZ Fund, were performed solely to assist you in evaluating [*identify the assertion—for example, the investment performance of XYZ Fund*]. This report is intended solely for your information and should not be used by those who did not participate in determining the procedures.

[*Include paragraph to enumerate procedures and findings.*]

These agreed-upon procedures are substantially less in scope than an examination, the objective of which is the expression of an opinion on the [*identify the presentation of assertions—for example, Statement of Investment Performance Statistics*]. Accordingly, we do not express such an opinion.

Based on the application of the procedures referred to above, nothing came to our attention that caused us to believe that the accompanying [*identify the presentation of assertions—for example, Statement of Investment Performance Statistics*] is not presented in conformity with [*identify the established, stated, or agreed-upon criteria—for example, the measurement and disclosure criteria set forth in Note 1*]. Had we performed additional procedures or had we made an examination of the [*identify the presentation of assertions—for example, Statement of Investment Performance Statistics*], other matters might have come to our attention that would have been reported to you.

.63 The third standard of reporting is—*The report shall state all of the practitioner's significant reservations about the engagement and the presentation of the assertion.*

.64 "Reservations about the engagement" refers to any unresolved problem that the practitioner had in complying with these attestation standards, interpretive standards, or the specific procedures agreed to by the specified user(s). The practitioner should not express an unqualified conclusion unless the engagement has been conducted in accordance with the attestation standards. Such standards will not have been complied with if the practitioner has been unable to apply all the procedures that he or she considers necessary in the circumstances or, when applicable, that have been agreed upon with the user(s).

.65 Restrictions on the scope of an engagement, whether imposed by the client or by such other circumstances as the timing of the work or the inability to obtain sufficient evidence, may require the practitioner to qualify the assurance provided, to disclaim any assurance, or to withdraw from the engagement. The reasons for a qualification or disclaimer should be described in the practitioner's report.

.66 The practitioner's decision to provide qualified assurance, to disclaim any assurance, or to withdraw because of a scope limitation depends on an assessment of the effect of the omitted procedure(s) on his or her ability to express assurance on the presentation of assertions. This assessment will be affected by the nature and magnitude of the potential effects of the matters in question, by their significance to the presentation of assertions, and by whether the engagement is an examination or a review. If the potential effects relate to many assertions within a presentation of assertions or if the practitioner is performing a review, a disclaimer of assurance or withdrawal is more likely to be appropriate. When restrictions that significantly limit the scope of the engagement are imposed by the client, the practitioner generally should disclaim any assurance on the presentation of assertions or withdraw from the engagement.

.67 "Reservations about the presentation of assertions" refers to any unresolved reservation about the conformity of the presentation with established or stated criteria, including the adequacy of the disclosure of material matters. They can result in either a qualified or an adverse report depending on the materiality of the departure from the criteria against which the assertions were evaluated.

.68 Reservations about the presentation of assertions may relate to the measurement, form, arrangement, content, or underlying judgments and assumptions applicable to the presentation of assertions and its appended notes, including, for example, the terminology used, the amount of detail given, the classification of items, and the bases of amounts set forth. The practitioner considers whether a particular reservation should be the subject of a qualified report or adverse report given the circumstances and facts of which he or she is aware at the time.

.69 The fourth standard of reporting is—*The report on an engagement to evaluate an assertion that has been prepared in conformity with agreed-upon criteria or on an engagement to apply agreed-upon procedures should contain a statement limiting its use to the parties who have agreed upon such criteria or procedures.*

.70 Certain reports should be restricted to specified users who have participated in establishing either the criteria against which the assertions were evaluated (which are not deemed to be "reasonable" for general distribution—see the third general standard) or the nature and scope of the attest engagement. Such procedures or criteria can be agreed upon directly by the user or through a designated representative. Reports on such engagements should clearly indicate that they are intended solely for the use of the specified parties and may not be useful to others.

ATTEST SERVICES RELATED TO MAS ENGAGEMENTS*

Attest Services as Part of an MAS Engagement

.71 When a practitioner⁸ provides an attest service (as defined in this section) as part of an MAS engagement, the Statements on Standards for Attestation Engagements⁹ apply only to the attest service. Statements on Standards for Management Advisory Services (SSMASs) apply to the balance of the MAS engagement.¹⁰ [New paragraph added, effective for attest reports issued on or after May 1, 1988, by SSAE *Attest Services Related to MAS Engagements.*]

.72 When the practitioner determines that an attest service is to be provided as part of an MAS engagement, the practitioner should inform the client of the relevant differences between the two types of services and obtain concurrence that the attest service is to be performed in accordance with the appropriate professional requirements. The MAS engagement letter or an amendment should document the requirement to perform an attest service. The practitioner should take such actions because the professional requirements for an attest service differ from those for a management advisory service. [New paragraph added, effective for attest reports issued on or after May 1, 1988, by SSAE *Attest Services Related to MAS Engagements.*]

* The terminology in this section is based on Statements on Standards for Management Advisory Services. The SSMASs were superseded by Statement on Standards for Consulting Services No. 1 *Consulting Services: Definitions and Standards* (SSCS), effective for engagements accepted on or after January 1, 1992. This section has not been revised to reflect the conforming changes necessary due to the issuance of the SSCS.

⁸ *Practitioner* is defined in this section to include a proprietor, partner, or shareholder in a public accounting firm and any full- or part-time employee of a public accounting firm, whether certified or not.

⁹ This refers to the SSAE *Attestation Standards* and subsequent statements in that series, as issued by the AICPA.

¹⁰ This refers to SSMAS No. 1, *Definitions and Standards for MAS Practice* [MS section 11], and subsequent statements in that series, as issued by the AICPA.

.73 The practitioner should issue separate reports on the attest engagement and the MAS engagement and, if presented in a common binder, the report on the attest engagement or service should be clearly identified and segregated from the report on the MAS engagement. [New paragraph added, effective for attest reports issued on or after May 1, 1988, by SSAE *Attest Services Related to MAS Engagements*.]

Assertions, Criteria, and Evidence

.74 An attest service may involve written assertions, evaluation criteria, or evidential matter developed during a concurrent or prior MAS engagement. A written assertion of another party developed with the practitioner's advice and assistance as the result of such an MAS engagement may be the subject of an attestation engagement, provided the assertion is dependent upon the actions, plans, or assumptions of that other party who is in a position to have an informed judgment about its accuracy. Criteria developed with the practitioner's assistance may be used to evaluate an assertion in an attest engagement, provided such criteria meet the requirements in the SSAE *Attestation Standards*. Relevant information obtained in the course of a concurrent or prior MAS engagement may be used as evidential matter in an attest engagement, provided the information satisfies the requirements of this section. [New paragraph added, effective for attest reports issued on or after May 1, 1988, by SSAE *Attest Services Related to MAS Engagements*.]

Nonattest Evaluations of Written Assertions

.75 The evaluation of statements contained in a written assertion of another party when performing a management advisory service does not in and of itself constitute the performance of an attest service. For example, in the course of an engagement to help a client select a computer that meets the client's needs, the practitioner may evaluate written assertions from one or more vendors, performing some of the same procedures as required for an attest service. However, the MAS report will focus on whether the computer meets the client's needs, not on the reliability of the vendor's assertions. Also, the practitioner's study of the computer's suitability will not be limited to what is in the written assertions of the vendors. Some or all of the information provided in the vendors' written proposals, as well as other information, will be evaluated to recommend a system suitable to the client's needs. Such evaluations are necessary to enable the practitioner to achieve the purpose of the MAS engagement. [New paragraph added, effective for attest reports issued on or after May 1, 1988, by SSAE *Attest Services Related to MAS Engagements*.]

Effective Date

.76 Paragraphs .01 through .70 are effective for attest reports issued on or after September 30, 1986. Earlier application is encouraged. Paragraphs .71 through .75 are effective for attest reports issued on or after May 1, 1988. [As amended, effective for attest reports issued on or after May 1, 1988, by Statement on Standards for Attestation Engagements, *Attest Services Related to MAS Engagements*. Formerly paragraph .71, number changed by the issuance of SSAE *Attest Services Related to MAS Engagements*.]

Appendix A*

Comparison of the Attestation Standards With Generally Accepted Auditing Standards

1. Two principal conceptual differences exist between the attestation standards and the ten existing GAAS. First, the attestation standards provide a framework for the attest function beyond historical financial statements. Accordingly, references to "financial statements" and "generally accepted accounting principles," which exist in GAAS, are omitted from the attestation standards. Second, as is apparent in the standards of fieldwork and reporting, the attestation standards accommodate the growing number of attest services in which the practitioner expresses assurances below the level that is expressed for the traditional audit ("positive opinion").

2. In addition to these two major differences, another conceptual difference exists. The attestation standards formally provide for attest services that are tailored to the needs of users who have participated in establishing either the nature and scope of the attest engagement or the specialized criteria against which the assertions are to be measured, and who will thus receive a limited-use report. Although these differences are substantive, they merely recognize changes that have already occurred in the marketplace and in the practice of public accounting.

3. As a consequence of these three conceptual differences, the composition of the attestation standards differs from that of GAAS. The compositional differences, as indicated in the table at the end of this Appendix, fall into two major categories: (a) two general standards not contained in GAAS are included in the attestation standards and (b) one of the fieldwork standards and two of the reporting standards in GAAS are not explicitly included in the attestation standards. Each of these differences is described in the remainder of this Appendix.

4. Two new general standards are included because, together with the definition of an attest engagement, they establish appropriate boundaries around the attest function. Once the subject matter of attestation extends beyond historical financial statements, there is a need to determine just how far this extension of attest services can and should go. The boundaries set by the attestation standards require (a) that the practitioner have adequate knowledge in the subject matter of the assertion (the second general standard) and (b) that the assertion be capable of reasonably consistent estimation or measurement using established or stated criteria (the third general standard).

5. The second standard of fieldwork in GAAS is not included in the attestation standards for a number of reasons. That standard calls for "a proper study and evaluation of the existing internal control as a basis for reliance thereon and for the determination of the resultant extent of the tests to which auditing procedures are to be restricted." The most important reason for not including this standard is that the second standard of fieldwork of the attestation standards encompasses the study and evaluation of internal controls because, when performed, it is an element of accumulating sufficient evidence. A second reason is that the concept of internal control may not be relevant for certain assertions (for example, aspects of information about computer software) on which a practitioner may be engaged to report.

* This Appendix provides a historical analysis made as of March 1986. This Appendix has not been revised to reflect the new terminology from the issuance of Statement on Standards Nos. 53 through 71.

6. The attestation standards of reporting are organized differently from the GAAS reporting standards to accommodate matters of emphasis that naturally evolve from an expansion of the attest function to cover more than one level and form of assurance on a variety of presentations of assertions. There is also a new reporting theme in the attestation standards. This is the limitation of the use of certain reports to specified users and is a natural extension of the acknowledgement that the attest function should accommodate engagements tailored to the needs of specified parties who have participated in establishing either the nature and scope of the engagement or the specified criteria against which the assertions were measured.

7. In addition, two reporting standards in GAAS have been omitted from the attestation standards. The first is the standard that requires the auditor's report to state "whether such [accounting] principles have been consistently observed in the current period in relation to the period." The second states that "informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report." Those two standards are not included in the attestation standards because the second attestation standard of reporting, which requires a conclusion about whether the assertions are presented in conformity with established or stated criteria, encompasses both of these omitted standards.

Attestation Standards Compared With Generally Accepted Auditing Standards

Attestation Standards

Generally Accepted Auditing Standards

General Standards

- | | |
|---|--|
| <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 of the subject matter of the assertion. 3. The practitioner shall perform an engagement only if he or she has reason to believe that the following two conditions exist: <ul style="list-style-type: none"> ● The assertion is capable of evaluation against reasonable criteria that either have been established by a recognized body or are stated in the presentation of the assertion in a sufficiently clear | <ol style="list-style-type: none"> 1. The examination is to be performed by a person or persons having adequate technical training and proficiency as an auditor. |
|---|--|

(continued)

and comprehensive manner for a knowledgeable reader to be able to understand them.

- The assertion is capable of reasonably consistent estimation or measurement using such criteria.
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.
 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 performance of the examination and the preparation of the report.

Standards of Fieldwork

1. The work shall be adequately planned and assistants, if any, shall be properly supervised.
1. The work is to be adequately planned and assistants, if any, are to be properly supervised.
2. There is to be a proper study and evaluation of the existing internal control as a basis for reliance thereon and for the determination of the resultant extent of the tests to which auditing procedures are to be restricted.
2. Sufficient evidence shall be obtained to provide a reasonable basis for the conclusion that is expressed in the report.
3. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination.

Standards of Reporting

1. The report shall identify the assertion being reported on and state the character of the engagement.
1. The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles.
2. The report shall state the practitioner's conclusion about whether the assertion is presented in conformity with the established or stated criteria against which it was measured.
2. The report shall state whether such principles have been consistently observed in the current period in relation to the preceding period.

3. The report shall state all of the practitioner's significant reservations about the engagement and the presentation of the assertion.
4. The report on an engagement to evaluate an assertion that has been prepared in conformity with agreed-upon criteria or on an engagement to apply agreed-upon procedures should contain a statement limiting its use to the parties who have agreed upon such criteria or procedures.
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.

[Formerly paragraph .73, number changed by the issuance of SSAE *Attest Services Related to MAS Engagements*, effective for attest reports issued on or after May 1, 1988.]

Appendix B*

Analysis of Apparent or Possible Inconsistencies Between the Attestation Standards and Existing SASs and SSARSs

1. There are no identified inconsistencies between the attestation standards and the ten generally accepted auditing standards or those SASs that deal with audits of historical financial statements. However, certain existing interpretive standards (SASs and SSARSs) and audit and accounting guides that pertain to other attest services are modestly inconsistent with these attestation standards. The purpose of this Appendix is to identify apparent or possible inconsistencies between the attestation standards and existing SASs and SSARSs. It provides appropriate standard-setting bodies with a list of matters that may require their attention. The Auditing Standards Board and the Accounting and Review Services Committee will evaluate apparent or possible inconsistencies and consider whether any changes are necessary. The decision to propose changes, if any, to existing pronouncements will be the subject of the regular due-process procedures of AICPA standard-setting bodies.

2. The specific SASs, SSARSs, and other pronouncements in which apparent or possible inconsistencies exist (in whole or in part) have been classified into the following broad categories to assist readers in understanding and evaluating their potential significance:

* This Appendix provides a historical analysis made as of March 1986. This Appendix has not been revised to reflect the new terminology from the issuance of Statement on Auditing Standards Nos. 53 through 71.

- a. Exception reporting
- b. Failure to report on conformity with established or stated criteria
- c. Failure to refer to a separate presentation of assertions that is the responsibility of the asserter
- d. Lack of appropriate scope of work for providing a moderate level of assurance
- e. Report wording inconsistencies

All existing authoritative pronouncements will remain in force while the Auditing Standards Board and the Accounting and Review Services Committee evaluate these apparent or possible inconsistencies.

Exception Reporting

3. Certain SASs (Nos. 27, 28, 36, 40, and 45) require the auditor to apply certain limited procedures to supplementary information required by the Financial Accounting Standards Board (FASB) but to separately report on such information only if exceptions arise. The purpose of these limited procedures is to permit the auditor to reach a conclusion on the reliability of required supplementary information; consequently, this seems to amount to an attest service in the broadest sense of that term. However, because the auditor has not been engaged to express and normally does not express a conclusion in this particular circumstance, the limited procedures do not fully meet the definition of an attest engagement.

Failure to Report on Conformity With Established or Stated Criteria

4. SAS Nos. 29 and 42 provide guidance for auditors when they report on two specific types of assertions: information accompanying financial statements in an auditor-submitted document and condensed financial information, respectively. The apparent criterion against which the auditor is directed to report is whether the assertion is "fairly stated in all material respects in relation to the basic financial statements taken as a whole."

5. To some, such a form of reporting seems to be inconsistent with the second reporting standard, which requires the practitioner's report to state "whether the assertions are presented in conformity with the established or stated criteria against which they were measured." Although it seems reasonably clear that GAAP are the established criteria against which the information accompanying financial statements in an auditor-submitted document is evaluated, the report form required by SAS No. 29 does not specifically refer to GAAP. Such reference, if it were required, would effectively reduce the stated level of materiality from the "financial statements as a whole" to the specific assertions on which the practitioner is reporting, and a practitioner may not have obtained sufficient evidence to provide a positive opinion on the assertions in such a fashion.

6. The situation with respect to SAS No. 42 is somewhat different. Although some would argue that there are established criteria (for example, GAAP or Securities and Exchange Commission [SEC] regulations) for condensed financial statements and selected financial information, others do not agree with such a conclusion. The Auditing Standards Board took the latter position when this SAS was adopted because it did not provide for a reference to GAAP or SEC regulations in the standard auditor's report.

Failure to Refer to a Separate Presentation of Assertions That Is the Responsibility of the Asserter

7. SAS Nos. 14 and 30 provide for attest reports in which there is no reference to a separate presentation of assertions by the responsible party. In both cases, management's assertions—compliance with regulatory or contractual requirements and the adequacy of the entity's system of internal accounting control—are, at best, implied or contained in a management representation letter.

8. For instance, SAS No. 30 refers to an engagement to express an opinion on an entity's system of internal accounting control rather than on management's description of such a system (including its evaluation of the system's adequacy). Furthermore, the standard report gives the practitioner's opinion directly on the system. In an effort to better place the responsibility for the system where it really lies, the report does include some additional explanatory paragraphs that contain statements about management's responsibility and the inherent limitations of internal controls.

Lack of Appropriate Scope of Work for Providing a Moderate Level of Assurance

9. Portions of three SASs (SAS No. 14, on compliance with regulatory or contractual requirements; SAS No. 29, on information accompanying financial statements in an auditor-submitted document; and SAS No. 30, on a system of internal accounting control based on a financial statement audit) permit the expression of limited assurance on specific assertions based solely or substantially on those auditing procedures that happen to have been applied in forming an opinion on a separate assertion—the financial statements taken as whole.

10. Such a basis for limited assurance seems inconsistent with the second fieldwork standard, which requires that limited assurance on a specific assertion must be based either on obtaining sufficient evidence to reduce attestation risk to a moderate level as described in the attestation standards or applying specific procedures that have been agreed upon by specified users for their benefit. The scope of work performed on the specific assertions covered in the three SASs identified above depends entirely, or to a large extent, on what happens to be done in the audit of another assertion and would not seem to satisfy the requirements of either of the bases for limited assurance provided in the second standard of fieldwork.

11. Four other SASs (Nos. 27, 28, 40, and 45) may be inconsistent with the requirements of the second fieldwork standard in that they prescribe procedures as a basis for obtaining limited assurance on a specific assertion that seem to constitute a smaller scope than those necessary to reduce attestation risk to a moderate level. These SASs either limit the prescribed procedures to specific inquiries or the reading of an assertion, or they acknowledge that an auditor may not be able to perform inquiries to resolve doubts about certain assertions.

Report Wording Inconsistencies

12. The four reporting standards require that an attest report contain specific elements, such as an identification of the assertions, a statement of the character of the engagement, a disclaimer of positive opinion in limited assurance engagements, and the use of negative assurance wording in such

engagements. A number of existing SASs and SSARs prescribe reports that do not contain some of these elements.

13. Because a compilation of financial statements as described in the SSARs and a compilation of prospective financial statements as described in the Statement on Standards for Accountants' Services on Prospective Financial Information do not result in the expression of a conclusion on the reliability of the assertions contained in those financial statements, they are not attest engagements. Therefore, such engagements do not have to comply with the attestation standards and there can be no inconsistencies. Although it does not involve the attest function, a compilation is nevertheless a valuable professional service involving a practitioner's expertise in putting an entity's financial information into the form of financial statements—an accounting (subject matter) expertise rather than attestation expertise.

14. Certain existing reporting and other requirements of SASs and SSARs go beyond (but are not contrary to) the standards. Examples include the requirements to perform a study and evaluation of internal control, to report on consistency in connection with an examination of financial statements, and to withdraw in a review of financial statements when there is a scope limitation. These requirements remain in force.

[Formerly paragraph .73, number changed by the issuance of SSAE *Attest Services Related to MAS Engagements*, effective for attest reports issued on or after May 1, 1988.]

CONSULTING SERVICES PUBLICATIONS

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<i>Assisting Clients in Maximizing Profits: A Diagnostic Approach</i>	055268
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<i>Assisting Clients in Determining Pricing for Manufactured Products</i>	055287
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<i>Personal Financial Planning: The Team Approach</i>	055304
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(continued)

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Product Number

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<i>Starting and Developing an MAS Practice</i>	055925
<i>Communicating With Clients About MAS Engagement Understandings</i>	055930
<i>Human Resources Planning and Management for an MAS Practice</i>	055131
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<i>Application of AICPA Professional Standards in the Performance of Litigation Services</i>	048562
<i>Conflicts of Interest in Litigation Services Engagements</i>	048563
<i>Comparing Attest and Consulting Services: A Guide for the Practitioner</i>	048564

Software (running on WordPerfect 5.1)

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