

## **Chapter 21—Other Engagements, Services, and Reports**

**Assurance—represents the degree of certainty the practitioner has attained and wishes to convey, that the conclusions stated in his or her report are correct. The greater the amount of competent, relevant evidence accumulated the higher the level of assurance attained. The attestation standards define two levels of assurance: high and moderate. A third level of assurance—no assurance –is implied.**

**Whenever a practitioner is associated with a set of assertions, he or she must perform some procedures and accumulate some evidence. When no assurance is given about the assertions, there will still be minimal evidence accumulated.**

## **Types of Engagements**

**Examinations, reviews, and agreed-upon procedures.**

**An examination results in a conclusion that is in a positive form. The practitioner makes a direct statement as to whether the presentation of the assertions, taken as a whole, conforms with applicable criteria. In a review, the practitioner provides a conclusion in the form of a negative assurance. The report states whether any information came to the practitioner's attention to indicate that the assertions are not presented in all material respects in conformity with applicable criteria. In an agreed-upon procedures engagement, the procedures to be performed are agreed upon by the practitioner, users, and the party making the assertions.**

## **Specified Elements, Accounts or Items**

**The type of engagement undertaken is generally an examination but may also be an agreed-upon-procedures engagement. Two differences between audits of specified elements and audits of financial statements:**

**1—materiality—defined in terms of the elements rather than in relation to the overall statements**

**2—first standard of reporting under GAAS does not apply because the presentation of elements are not in financial statements prepared in accordance with GAAP**

## **Other Comprehensive Bases of Accounting**

**Cash basis—only cash receipts and disbursements are recorded. No accruals.**

**Modified cash basis—cash basis is followed except for certain items such as recording fixed assets and depreciation**

**Basis used to comply with the requirements of a regulatory agency**

## **Income tax basis**

**The reporting requirements for these comprehensive bases of accounting include the following:**

**Introductory paragraph—equivalent to the intro paragraph of a report on statements that follow GAAP**

**Scope paragraph—equivalent to the scope paragraph in the ordinary unqualified standard report**

**Middle paragraph stating the accounting basis—is unique to this kind of report.**

**Opinion paragraph—comparable to that used in the standard unqualified audit report**

**Restriction of distribution paragraph—used if financial statements are presented in conformity with certain regulatory requirements**

## **Debt Compliance Letters and Similar Reports**

**The following matters are important for the auditor to observe in such engagements:**

- 1. the engagement and report should be limited to compliance matters the auditor is qualified to evaluate**
- 2. the auditor should provide a debt compliance letter only for a client for whom he or she has done an audit of overall financial statements**
- 3. the auditor's opinion would be in the form of a negative assurance stating that nothing came to the auditor's attention that would lead the auditor to believe there was noncompliance**

## **Internal Controls**

**Five steps which are similar to those followed for a regular audit engagement, are followed when the CPA is engaged to obtain an understanding of IC:**

- 1. plan the scope of the engagement—the auditor, client and others involved first agree on the areas to be covered and timing of the study**
- 2. review the design of IC—the auditor obtains detailed info about the transactions, their flow through the structure, specific control objectives, and IC procedures used to achieve control**
- 3. perform tests of controls to determine conformity with prescribed procedures**
- 4. evaluate the results of the understanding and tests of controls—a final evaluation of controls and weaknesses is now made. The primary criterion is whether there are material weaknesses either individually or in combination. A weakness is material if the condition results in more than a relatively low risk of such errors or irregularities in amounts that would be material in relation to the financial statements.**
- 5. prepare the appropriate report**

## **Information Accompanying Basic Financial Statements**

- detailed comparative statements supporting the control totals for certain accounts**
- supplementary information required by the FASB and SEC**
- statistical data for past years**
- a schedule of insurance coverage**
- comments on the changes that have taken place**

## **Compilation and Review Services**

**Compilation—in SSARS, it is defined as presenting, in the form of financial statements, information that is the representation of management without undertaking to express any assurance on the statements.**

**Compilation with full disclosure—this requires full disclosure in accordance with GAAP.**

**Compilation that omits substantially all disclosures—is acceptable only if the report indicates the lack of disclosures and the absence of disclosures, is not, to the CPA’s knowledge, undertaken with the intent to mislead users.**

**Compilation without independence—when the accountant lacks independence, the following should be included as a separate last paragraph: “We are not independent with respect to XYZ Company.”**

**The preparer of the statements must:**

- know something about the accounting principles of the client’s industry**
- know the client, the nature of its business transactions, accounting records, and employees**
- make inquiries to determine if the client’s information is satisfactory**
- read the compiled financial statements and be alert for any obvious omissions or errors**
- disclose in the report any omissions or departures from GAAP. This requirement**



**does not apply to compilations that omit substantially all disclosures**

**Review—performing inquiry and analytical procedures that provide the accountant with a reasonable basis for expressing limited assurance that there are no material modifications that should be made to the statements for them to be in conformity with GAAP or another OCBOA**

**The following are required for a SSARS review report:**

**The date of the accountant's report is the date of completion of the accountant's inquiry and analytical procedures and each page of the financial statements reviewed by the accountant states "See accountant's review report."**

## **Emphasis in four broad areas:**

**--obtain knowledge of the accounting principles and practices of the client's industry.**

**--obtain knowledge of the client**

**--make inquiries of management. The objective of these inquiries is to determine whether the financial statements are fairly presented assuming that management does not intend to deceive the accountant**

## **Prospective Financial Statements**

**Two general types of prospective financial statements:**

- 1. forecasts—are prospective financial statements that present an entity's expected financial position, results of operations, and cash flows, to the best of the responsible party's knowledge**
- 2. projections—are prospective financial statements that present an entity's expected financial position, results of operations, cash flows, to the best of the responsible party's knowledge, given one or more hypothetical assumptions**

**An examination, a compilation or an agreed-upon procedure may be undertaken for prospective financial statements.**

**An examination of prospective financial statements involves:**

- evaluating the preparation of the prospective financial statements**
- evaluating the support underlying assumptions**
- evaluating the presentation of the prospective financial statements**
- issuing an examination report**

**A report should include:**

- an identification of statements presented**
- a statement that the examination was made in accordance with AICPA standards**
- the accountant's opinion that the statements are presented in accordance with AICPA presentation guidelines and that the underlying assumptions provide a reasonable basis for the forecast**
- a caveat that the prospective results may not be achieved**
- a statement that the accountant has no responsibility to update the report**