

Chapter 21-Other Engagements, Services and Reports

The profession has issued what are known as *Statement on Standards for Attestation Engagements*.

Attest engagement—one in which a practitioner is engaged to issue or does issue a written communication that expresses a conclusion with respect to the reliability of a written assertion that is responsibility of another party.

Assertion—any declaration or set of related declarations taken as a whole, by a party responsible for it. Assertions are statements made by one party implicitly for use by another party.

Levels of Assurance

Types of Engagements

The attest standards define three types of engagements and related forms of conclusions:

Specified Elements, Accounts or Items

Auditors are often asked to issue reports on their examination of particular aspects of financial statements. A common example is a special report on sales of a retail store in a shopping center to be used as a basis for rental payments. Other common examples are reports on royalties, profit participation, and provision for income taxes. The authority for attestation to specified elements, accounts or items is SAS 62 (AU section 623)--Special Reports.

Other Comprehensive Bases of Accounting

Auditors often audit statements prepared on bases other than GAAP. SAS 62 provides that GAAS apply to these examination engagements, but the reporting requirements differ somewhat from those described in this course to date. The following are common examples of bases other than GAAP:

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

Debt Compliance Letters and Similar Reports

Clients occasionally enter into loan agreements that require them to provide the lender with a report from a CPA as to the existence or nonexistence of some condition. These engagements are somewhat hard to define in terms of the attestation framework. Reports on debt compliance and similar engagements are discussed in AU 623, paragraphs .19 through .23.

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

Although debt compliance letters are common, they are only part of a broader set of special reports arising from contractual or regulatory requirements. These types of reports also include (1) presentations of financial statements that are in a form required by contract or regulation that are not in conformity with GAAP or another comprehensive basis of accounting and (2) presentations that are in conformity with one of those bases, but are incomplete.

Internal Control Structure

The auditor may be engaged to report on an entity's internal control structure. This may be done for a regular audit client that wants such a report for its internal use, for meeting requirements of a regulatory agency, or for an entity such as an EDP service center, for the use of its customers and their auditors. The report may cover all or part of IC. When the auditor is engaged to report on the IC, all areas of IC will be included unless specifically excluded by agreement. Also, the time period covered will be a matter of agreement. 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:

Information Accompanying Basic Financial Statements

Clients request auditors to include additional information beyond the basic financial statements in the set of materials prepared for management or outside users. SAS 29 refers to this additional information as information accompanying the basic financial statements in auditor-submitted documents.

Several types of information are commonly included in the additional information:

It is important that the auditor clearly distinguish between responsibilities for the primary financial statements and for additional information. When, on the same audit, the basic financial statements and accompanying additional information are issued to some users and only the basic statements are issued to others, the auditor should exercise special care to assure himself or herself that the additional information is not such that it would lend support to a claim that there is inadequate disclosure in the basic financial statements.

Compilation and Review Statements

Statements on Standards for Accounting and Review Services (SSARS) govern the CPA's association with unaudited financial statements of nonpublic companies. The two types of services provided in connection with these financial statements are termed compilations and reviews.

For public companies, unaudited financial statements are labeled as unaudited and require a disclaimer of opinion.

Compilation--

Compilation with full disclosure--

Compilation that omits substantially all disclosures--

Compilation without independence--

Several things are required by SSARS for compilation. The preparer of the statements must:

Review--

There is only one form of review under SSARS--review of financial statements with full disclosure. For the SSARS review report, the following are required:

Procedures suggested for reviews

Reviews imply a level of assurance somewhere between that for a compilation and that of an audit. An SSARS review does not include obtaining an understanding of the internal control structure, tests of controls or transactions, independent confirmation or physical examination. The emphasis in SSARS reviews is in four broad areas:

The only time that material departure for failure to follow GAAP is acceptable is for compilation without complete disclosure. In all other areas, including all SSARS review services engagements, a modification of the report is needed. The accountant is not required to determine the effect of a departure if management has not done so, but that fact must also be disclosed in the report.

The disclosure must be made in a separate paragraph in the report for either a compilation or review.

Review of Interim Financial Information

The SEC requires quarterly financial information as a part of quarterly 10-Q reports. The statements do not have to be audited. The SEC does require a footnote in the annual audited financial statements disclosing quarterly sales, gross profit, income and earnings per share for the past two years. At a minimum, the CPA must perform review procedures of the footnote information. The review can be done as part of an annual audit.

The requirements for reviews of interim information for public companies are in SAS 36. The requirements are more closely related to unaudited review requirements of SSARS than to audit requirements. A SAS 36 review does not provide a basis for expressing a positive form opinion.

A client's representation letter is required under SAS 36. The objective of a SAS 36 review is to provide the accountant with a basis for reporting to management, the board of directors, and the stockholders and others on significant matters found through inquiry and analytical procedures.

The standard report for interim financial statements that have been reviewed is recommended by SAS 36. Each page of the interim financial information should be clearly marked as "unaudited."

Prospective Financial Statements

The AICPA's *Statement on Standards for Accountant's Service on Prospective*

Financial Statements was completed concurrently with the attestation standards. There are two general types of prospective financial statements:

Prospective financial statements are for either general or limited use. General use refers to use by any third party. Limited use refers to use by third parties with whom the responsible party is negotiating directly. An example would be inclusion of a financial projection in a bank loan application.

Whereas forecasts can be provided for both general and limited use, projections are restricted to the latter.

The standards require that one of the following types of engagements for prospective financial statements be undertaken:

An examination of prospective financial statements involves: