Other Assurance Services

Chapter 25
Learning Objective 1

Understand the level of assurance and evidence requirements for review and compilation services.
The standards for compilations and reviews of financial statements are called **Statements on Standards for Accounting and Review Services (SSARS)**.
Relationship Between Evidence Accumulation and Assurance Attained

- **None** (Compilation)
- **Minimal** (Compilation)
- **Limited** (Review)
- **High** (Audit)

- **Extensive** (Audit)
- **Significant** (Review)

Amount of Evidence Accumulated
A review service (SSARS review) engagement is designed to allow the accountant to express limited assurance that the financial statements are in accordance with GAAP.
Procedures Suggested for Reviews

Obtain industry knowledge

Know the client

Make inquiries of management

Perform analytical procedures

Obtain a representation letter

Prepare documentation
We have reviewed the accompanying balance sheet of Archer Technologies, Inc., as of December 31, 2011, and the related statements of income, retained earnings, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management’s financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.
Compilation Services

Defined in SSARS as one in which accountants present to a client or third party, financial statements that the accountant has prepared.

The CPA firm does not express any assurance on the statements.
Requirements for Compilation

- Document services to be performed and a description of the report
- Know the industry accounting principles and practices
- Know the client
Requirements for Compilation

- Determine whether the client’s information is satisfactory

- Review the compiled financial statements for any obvious omissions or errors in math and GAAP
Form of Compilation Report

- Full Disclosure
- No Disclosure
- Compilation without independence
Form of Compilation Report

Accountant’s Compilation Report

We have compiled the accompanying balance sheet of Williams Company as of December 31, 2011, and the related statements of income, retained earnings, and cash flows for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.
Form of Compilation Report (without disclosures)

We have compiled the accompanying balance sheet of Williams Company as of December 31, 2011, and the related statements of income and retained earnings for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures and the statement of cash flows required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user’s conclusions about the company’s financial position, results of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.
Learning Objective 2

Describe special engagements to review interim financial information for public companies.
Like reviews under SSARS, a public company interim review includes the five requirements for review service engagements.

The SEC requires quarterly financial statements to be reviewed by the company’s external auditor prior to the company’s filing of the Form 10-Q.
Review of Interim Financial Information for Public Companies

Like reviews under SSARS, a review for a public company does not provide a basis for expressing a positive form opinion.

The review is conducted according to the standards of the PCAOB and there is no reference to the SSARS in a review report.
Learning Objective 3

Distinguish AICPA attestation standards from auditing standards and know the type of engagements to which they apply.
Attestation Engagements

Attestation standards

Types of engagements

Levels of service
## Types of Engagements and Related Reports

<table>
<thead>
<tr>
<th>Type of Engagement</th>
<th>Amount of Evidence</th>
<th>Level of Assurance</th>
<th>Form of Conclusion</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examination</td>
<td>Extensive</td>
<td>High</td>
<td>Positive</td>
<td>General</td>
</tr>
<tr>
<td>Review</td>
<td>Significant</td>
<td>Moderate</td>
<td>Negative</td>
<td>General</td>
</tr>
<tr>
<td>Agreed-upon procedures</td>
<td>Varying</td>
<td>Varying</td>
<td>Findings</td>
<td>Limited</td>
</tr>
</tbody>
</table>
Learning Objective 4

Understand the nature of **WebTrust** and **SysTrust** assurance services.
In a **WebTrust** attestation engagement, a client engages a CPA to provide reasonable assurance that a company’s Web site complies with certain **Trust Services** principles and criteria for one or more aspects of e-commerce activities.
## Five Trust Services Principles

<table>
<thead>
<tr>
<th>Principle</th>
<th>The entity discloses and maintains compliance with its...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security</td>
<td>security practices, ensuring that the system is protected against unauthorized access (both physical and logical).</td>
</tr>
<tr>
<td>Availability</td>
<td>availability practices, ensuring that the system is available for operation and use as committed or agreed.</td>
</tr>
<tr>
<td>Processing Integrity</td>
<td>processing integrity, ensuring that system processing is complete, accurate, timely, and authorized.</td>
</tr>
<tr>
<td>Online Privacy</td>
<td>online privacy practices, ensuring that personal information obtained as a result of e-commerce is collected, used, disclosed, and retained as committed or agreed.</td>
</tr>
<tr>
<td>Confidentiality</td>
<td>confidentiality practices, ensuring that information designated as confidential is protected as committed or agreed.</td>
</tr>
</tbody>
</table>

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In a *SysTrust* engagement, the *SysTrust* licensed CPA evaluates a company’s computer system using *Trust Services* principles and criteria.

The service provides assurance to management, directors, or third parties about the reliability of information systems used to generate real-time information.
Learning Objective 5

Describe engagements to report on internal controls at service organizations.
Internal Control Reports at Service Organizations

- Historically referred to as SAS 70 engagements
- Two types of reports
  - Type I – report on the design of controls
  - Type II – report on the operating effectiveness of controls
Learning Objective 6

Describe special engagements to attest to prospective financial statements.
Prospective Financial Statements

Forecasts and Projections

Use of prospective financial statements

Types of engagements
Examinations of Prospective Financial Statements

- Evaluating the preparation of the prospective financial statements
- Evaluate the underlying support for assumptions
- Evaluate the presentation for conformity with AICPA guidelines
- Issuing an examination report
Learning Objective 7

Describe agreed-upon procedures engagements.
The audit is limited to certain specific audit procedures.

These are referred to as procedures and findings engagements.

The SASs deal with financial statement items, whereas the SSAEs deal with nonfinancial statement matters.
Learning Objective 8

Describe other audit and limited assurance engagements related to historical financial statements.
Other Comprehensive Basis of Accounting

- Cash or modified cash basis
- Tax basis
- Definite set of criteria
- Regulatory agency basis
Specified Elements, Accounts, or Items

Auditors are often asked to audit and issue reports on specific aspects of financial statements.
Specified Elements, Accounts, or Items

Two differences in these types of audits:

1. Materiality is defined by the item audited

2. GAAS (first standard) does not apply.
Debt Compliance Letters and Similar Reports

The engagement and report should be limited to compliance matters the auditor is qualified to evaluate.

The auditor should provide a debt compliance letter only for a client for whom the auditor has done an audit of the overall financial statements.
The auditor’s opinion is 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.
End of Chapter 25