AICPA
Forensic Services
FS Section
Statement on Standards for Forensic Services
FS Section 100
Frequently Asked Questions (FAQs)
Non-Authoritative
FAQs

Why Issued?

1. Why is Statement on Standards for Forensic Services No. 1 (“SSFS 1”) being issued?

Existing standards that apply to forensic services reside in the Statement on Standards for Consulting Services No. 1 and the AICPA Code of Professional Conduct. SSFS 1 largely reflects a consolidation of existing standards relevant to forensic services into one single standard.

In addition, forensic services are a growing and evolving area, and the Forensic and Valuation Services Executive Committee is issuing SSFS 1 to protect the public interest and increase the level of consistency across the profession in providing forensic services. For example, existing standards did not explicitly prohibit a member or member firm from issuing an opinion on the existence of fraud. The ultimate decision as to fraud in disputes are for the province of the trier of fact and are generally not allowed as expert testimony in the United States. SSFS 1 specifically prohibits a member or member firm from issuing an opinion regarding the occurrence of fraud when performing forensic services. Moreover, existing standards pertaining to contingent fees did not sufficiently address forensic services. SSFS 1 prohibits a member engaged as an expert witness in litigation from providing opinions pursuant to a contingent fee arrangement.

To Whom Does It Apply?

2. Does SSFS 1 apply to all AICPA members and member firms, or only to members of the AICPA’s Forensic and Valuation Services section?

SSFS 1 applies to all AICPA members, AICPA member firms, and employees of AICPA member firms. Additionally, state boards of accountancy that issue CPA licenses issue professional standards, and state boards of accountancy refer to AICPA professional standards in various ways. Some state boards of accountancy incorporate the AICPA standards into their own standards. Consequently, CPAs and CPA firms that are not members of the AICPA may still be required to follow SSFS 1.

3. Is SSFS 1 applicable when a member is part of a financial statement audit team that performs audit procedures “in response to specific concerns of wrong-doing?”

No. The member would be considered part of the audit team and SSFS 1 would not apply. Further, even if the member is not part of a member firm’s audit practice but is asked to assist the firm’s audit team to perform risk assessments or procedures regarding a specific concern of wrong doing, that member is supporting the audit team and the services fall under the auditing standards. As an example, audit teams commonly contact forensic accounting professionals at
their firm to help the auditors in responding to a specific concern or analyzing the work of a third-party investigative specialist (attorney, another member or regulator), which is often referred to as a “shadow investigation”. This type of service is not an “Investigation” as defined in SSFS 1, and instead constitutes an extension of audit procedures under the auditing standards.

4. Does SSFS 1 apply if the member or member firm is serving as the finder of fact, such as an accounting arbitrator in a post-acquisition dispute regarding the appropriate GAAP to be applied to a purchase price adjustment?

   Yes. An arbitration is a form of Litigation, thus a member or member firm serving as an accounting arbitrator is required to follow SSFS 1.

When Does It Apply?

5. How does a member or member firm determine what types of engagements and services are required to follow SSFS 1?

   Forensic services entail the use of a wide variety of skill sets possessed by members. Consequently, it is neither practical, nor consistent with the diverse nature of the industry, for SSFS 1 to be applied based upon the services or skills provided. As an example, a member may provide data analytics services in a variety of engagements, such as in internal audit engagements, management consulting engagements, process improvement engagements, etc. Therefore, the key criteria for applicability is not what service is being provided, but why it is being provided. The criteria for determining whether SSFS 1 is applicable requires a two-prong test to evaluate why a member or member firm is engaged. SSFS 1 applies when the professional services being provided are either for a “Litigation” or an “Investigation” as defined in SSFS 1.

6. Does a member performing a valuation in “Litigation” or “Investigation” follow both SSFS 1 and the Statements on Standards for Valuation Services?

   Yes. However, a member can also provide valuation services outside of a “Litigation” or an “Investigation.” As an example, a member may be asked to provide a valuation for tax planning purposes. In circumstances in which a member or member firm is providing a valuation outside of a “Litigation” or an “Investigation”, the member or member firm would apply SSVS1 and not SSFS 1.

7. Is SSFS 1 applicable to providing bankruptcy services?

   Generally, the answer is yes. A bankruptcy in the United States is a legal proceeding before a trier of fact, and consequently falls under SSFS 1. However, this is an area wherein the member or member firm must carefully evaluate whether the services being provided meet the two-prong test of a “Litigation” or an “Investigation.” For example, SSFS 1 is not applicable to a member or member firm providing financial statement audit or tax preparation services for an entity in bankruptcy as those services do not meet the two-prong test.
another example, a member or member firm providing financial advisory services to an entity that is restructuring and evaluating whether to file bankruptcy would not fall under SSFS. In this last example however, the financial advisory engagement may turn into an engagement where the member or member firm may continue providing services as the entity proceeds into a formal bankruptcy proceeding. At that time, the engagement may become a “Litigation” and SSFS 1 would be applicable.

8. Does SSFS 1 apply when a member testifies in a “Litigation” as a fact witness?

The general answer is no. However, if a member or member firm was providing services under SSFS, and as a continuation of (or in connection with) those services, a member testifies as a fact or percipient witness regarding the performance of the related forensic services, the member’s testimony would fall under SSFS 1.

9. Is SSFS 1 applicable to a compliance monitoring engagement?

Yes. Monitorships are typically imposed by a regulator and/or a court arising from a legal or regulatory proceeding. Members may be engaged as the monitor or as a consultant to the monitor. Reports are also frequently required and are submitted to a regulator and/or court, as opposed to a client for its own internal use. Although monitorships are carried out as a consequence of a legal or regulatory proceeding (typically pursuant to a negotiated settlement), they are connected to an actual legal or regulatory proceeding AND the potential remains for additional proceedings to occur depending on the outcome of the monitorships.

Other

10. What steps need to be taken if a consulting engagement becomes an Investigation or Litigation once the engagement is underway?

The member is required to update his/her understanding about the applicable standards for the engagement. It is up to each member’s professional judgment to decide the best way to document the understanding.