



**Agenda Item 1F**

**Proposed AT-C Section 206,<sup>1</sup> *Direct Examination Engagements*  
(Marked From the Draft Presented at the May 2020 ASB Meeting)**

Insertion	Moved from
Deletion	Moved to

Introduction, Objectives, Definitions, and Requirements	Application and Other Explanatory Material
<b>Introduction</b>	
<u>.01</u> <del>1</del> This section contains performance and reporting requirements and application guidance for direct examination engagements.	
<u>.02</u> <del>2</del> In addition to complying with this section, a practitioner performing a direct examination engagement is required to comply with AT-C section 105, <i>Concepts Common to All Attestation Engagements</i> , <del>and AT-C section 205, <i>Examination Engagements</i>.</del> <del>AT-C</del> <u>This</u> section <del>205</del> addresses <del>assertion-based</del> <u>direct</u> examination engagements in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. <del>This section enables the practitioner to apply AT-C section 205 to</del>	<u>.A1</u> <u>The practitioner’s objective in a direct examination engagement is to obtain reasonable assurance, just as it is in an assertion-based examination engagement.</u>

<sup>1</sup> The section number shown here is illustrative and has not yet been decided.

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<p>engagements in which <del>only</del> the practitioner measures or evaluates the underlying subject matter against the criteria. <del>.4</del> In an engagement performed in accordance with this section, the practitioner obtains reasonable assurance by measuring or evaluating the underlying subject matter against the criteria and performing other procedures to obtain sufficient appropriate evidence <del>in order to be able to draw reasonable conclusions on which to base</del> <u>support</u> the practitioner's opinion. <del>These engagements are referred to as direct examination engagements.</del> <u>(Ref. par. .A1)</u></p> <p><del>.3 This AT-C section presents the requirements for a direct examination engagement that differ from the requirements in AT-C section 205 for an assertion-based examination engagement. However, to provide context for certain requirements that differ from those in AT-C section 205, or to present a complete list of requirements for a particular aspect of a direct examination engagement, some paragraphs in this section repeat requirements that are the same as those for an assertion-based examination engagement. This section does not include all of the requirements for a direct examination because paragraph .8 of this section instructs the practitioner to apply all of the applicable requirements in AT-C section 205, adapted as necessary, to the direct examination engagement.</del></p> <p><del>.4 In an engagement performed in accordance with this section, the practitioner obtains reasonable assurance by measuring or evaluating the underlying subject matter against the criteria and performing other procedures to obtain sufficient appropriate evidence in order to be able to draw reasonable conclusions on which to base the</del></p>	

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<p>practitioner’s opinion. <del>These engagements are referred to as direct examination engagements.</del> Paragraph 4 was edited and merged with par. 2</p>	
<p><b>Effective Date</b></p>	
<p><del>.03 .5</del> This section is effective for practitioners’ direct examination reports dated on or after <del>Month XX 202X.</del> <u>December 15,2021</u></p>	
<p><b>Objectives</b></p>	
<p><del>.04 .6</del> In conducting a direct examination engagement, the objectives of the practitioner are to</p> <ul style="list-style-type: none"> <li>a. measure or evaluate the underlying subject matter against the criteria, <u>and present the results</u></li> <li>b. obtain reasonable assurance about whether the underlying subject matter is in accordance with (or based on) the criteria,</li> <li>c. express an opinion in a written report about whether the underlying subject matter is in accordance with (or based on) the criteria, in all material respects, or the resulting subject matter information is fairly stated, in all material respects, and</li> <li>d. communicate as required by this AT-C section, in accordance with the results of the practitioner's procedures.</li> </ul>	
<p><b>Requirements</b></p>	
<p><b>Preconditions</b></p>	
<p><del>.7 In order to establish that the preconditions for this attestation engagement are present, in addition to the preconditions in AT-C section 105, the practitioner should determine from the responsible</del></p>	

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<p>party whether the responsible party is required by law, regulation, or contract to measure or evaluate the underlying subject matter against the criteria or provide a written assertion regarding the outcome of that measurement or evaluation. If the responsible party is required to do so, the practitioner is precluded from performing a direct examination engagement.</p>													
<p><b><u>Adapting the Requirements in AT-C Section 205 to To Be Adapted To a Direct Examination Engagement and Requirements in This Section That Replace, or Are in Addition to, Requirements in AT-C Section 205</u></b></p>	<p><b><u>Adapting Requirements in AT-C Section 205 to To Be Adapted To a Direct Examination Engagement and Requirements in This Section That Replace, or Are In Addition to, Requirements in AT-C Section 205</u></b> (Ref: par. <b><u>.805 and .06</u></b>)</p>												
<p><del>.8</del> For direct examination engagements, this section includes requirements that address</p> <p style="margin-left: 20px;"><i>a</i>—matters relevant to accepting or continuing a direct examination engagement, including preconditions (paragraphs <del>.7 and .9</del>—<del>.10</del>)</p> <p style="margin-left: 20px;"><i>b</i>—terms of the engagement (paragraph <del>.11</del>)</p> <p style="margin-left: 20px;"><i>c</i>—the written representations that a practitioner is required to request of the responsible party and of the engaging party when the engaging party is not the responsible party (paragraphs <del>.12</del>—<del>.13</del>)</p> <p style="margin-left: 20px;"><i>d</i>—the required minimum elements of the practitioner’s direct examination report. (paragraph <del>.14</del>)</p> <p>The practitioner should apply all other applicable requirements in AT-C section 205, adapted as necessary, to a direct examination</p>	<p><del>.A1</del> The following table identifies paragraphs in this section that contain requirements that differ from those in AT-C section 205</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr style="background-color: #cccccc;"> <th style="padding: 5px;">Aspect of a Direct Examination</th> <th style="padding: 5px;">Paragraph in AT-C Section 206 That Replaces Paragraphs in AT-C Section 205</th> <th style="padding: 5px;">Paragraphs in Revised AT-C Section 205 That Are Replaced by Paragraphs in AT-C Section 206</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;">Preconditions</td> <td style="padding: 5px;"><del>.7</del></td> <td style="padding: 5px;">6</td> </tr> <tr> <td style="padding: 5px;">Terms of the Engagement</td> <td style="padding: 5px;"><del>.11</del></td> <td style="padding: 5px;"><del>.8</del></td> </tr> <tr> <td style="padding: 5px;">Written representations</td> <td style="padding: 5px;"><del>.12</del>—<del>.13</del></td> <td style="padding: 5px;"><del>.51 and .53</del></td> </tr> </tbody> </table>	Aspect of a Direct Examination	Paragraph in AT-C Section 206 That Replaces Paragraphs in AT-C Section 205	Paragraphs in Revised AT-C Section 205 That Are Replaced by Paragraphs in AT-C Section 206	Preconditions	<del>.7</del>	6	Terms of the Engagement	<del>.11</del>	<del>.8</del>	Written representations	<del>.12</del> — <del>.13</del>	<del>.51 and .53</del>
Aspect of a Direct Examination	Paragraph in AT-C Section 206 That Replaces Paragraphs in AT-C Section 205	Paragraphs in Revised AT-C Section 205 That Are Replaced by Paragraphs in AT-C Section 206											
Preconditions	<del>.7</del>	6											
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<p><del>engagement. The nature of a direct examination engagement may preclude the practitioner from applying certain requirements in AT-C section 205, entirely or in part, to a direct examination engagement. In those circumstances, the practitioner should, when necessary, adapt the relevant requirements and application guidance in AT-C section 205 to the direct examination engagement. (Ref: par. .A1-.A2)</del></p>	<table border="1"> <tr> <td style="text-align: left;">Elements of the Report</td> <td style="text-align: center;">-14</td> <td style="text-align: center;">-63</td> </tr> </table>	Elements of the Report	-14	-63	
Elements of the Report	-14	-63			
<p><u>.05</u> In performing a direct examination engagement, the practitioner is not required to request a written assertion from the responsible party.<sup>2</sup> However, the practitioner is required to apply the other requirements in AT-C section 205 to a direct examination engagement unless</p> <p><u>a.</u> the requirement cannot be applied as written because of the nature of a direct examination engagement, in which case the practitioner should adapt and apply the requirement (Ref: par. .A2-.A6.)</p> <p><u>b.</u> specified requirements in this section differ from and replace requirements in AT-C section 205. (These requirements are tailored to a direct examination engagement and identified in paragraph .06. (Ref: par. .A7)</p>	<p><u>.A2</u> - <u>In a direct examination engagement, obtaining reasonable assurance is the benchmark the practitioner uses for determining how and the extent to which AT-C section 205 may need to be adapted.</u></p> <p><u>.A3</u> The nature of a direct examination engagement is one in which the responsible party does not provide an assertion and the extent to which the responsible party has measured or evaluated the underlying subject matter against the criteria may vary.</p> <p><u>.A4</u> An example of a requirement in AT-C section 205 that the practitioner may be unable to perform as written is the requirement in paragraph .30 of AT-C section 205 to evaluate whether</p> <p><u>a.</u> the responsible party has appropriately applied the requirements of the criteria to any estimated amounts</p> <p><u>b.</u> the <u>methods for making estimates</u> are appropriate and have been applied consistently and whether changes, if any, in</p>				

<sup>2</sup> Paragraph .10 of AT-C section 205, *Examination Engagements*

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	<p><u>reported estimates or in the method for making them from the prior period, if applicable, are appropriate in the circumstances</u></p> <p><u>For example, in a direct examination engagement, the responsible party may not have fully applied the criteria to the underlying subject matter to develop the estimate. Therefore, the practitioner would be unable to evaluate the responsible party’s method for making the estimate. However, the practitioner might adapt the requirement by determining the method used by other entities in the same industry to make the estimate and then using that method in developing the estimate. If the responsible party had developed the estimate in a prior period, the practitioner may also evaluate whether the method used by the responsible party in the prior period differs from the method to be used by the practitioner in the current period, and if so, why.</u></p> <p><u>.A5 Although the practitioner could not evaluate the appropriateness of the responsible party’s method for making the estimate, the practitioner, as part of developing the estimate, would be able to perform other procedures that are relevant to making the estimate such as obtaining an understanding of</u></p> <ul style="list-style-type: none"> <li><u>• how the responsible party’s information system captures and records data and other information that provides a basis for the estimate (i.e., underlying subject matter)</u></li> <li><u>• the relevant controls over that data and other information</u></li> <li><u>• the factors both internal and external to the entity that affect the estimate</u></li> </ul>

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	<p><u>Obtaining an understanding of these matters also assists the practitioner in determining the appropriate method to use for making the estimate, assessing the accuracy and completeness of the data, and considering other relevant information to be used in developing the estimate.</u></p> <p><del>.A6</del> <del>.A2</del> Paragraph .13 of AT-C section 205 requires the practitioner to develop a plan that includes a description of the</p> <ul style="list-style-type: none"> <li>• nature, timing, and extent of planned risk assessment procedures and further procedures</li> <li>• other planned procedures that are required to be carried out so that the engagement complies with the attestation standards</li> </ul> <p>Applying paragraph .13 to a direct examination engagement may increase the extent, or change the nature, of the work the practitioner needs to perform because in a direct examination engagement the practitioner is measuring or evaluating <del>the</del> underlying subject matter against <del>the</del> criteria <del>and not just</del> <u>rather than simply</u> testing subject matter information prepared by the responsible party, as in an assertion-based examination <u>engagement</u>. Also, in a direct examination engagement, risk assessment procedures may primarily address</p> <ul style="list-style-type: none"> <li>• the accuracy and completeness of the underlying subject matter</li> <li>• the practitioner’s competence and experience with the underlying subject matter and criteria</li> <li>• the complexity of the measurement or evaluation of the underlying subject matter against the criteria.</li> </ul>

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	<p><del>.A3</del>. The practitioner's objective in a direct examination engagement is to obtain reasonable assurance, just as it is in an assertion-based examination engagement. In a direct examination engagement, obtaining reasonable assurance is the benchmark the practitioner uses for determining in what way and the extent to which AT-C section 205 may need to be adapted. For example, paragraph .29 of AT-C section 205 indicates that one procedure the practitioner may undertake to evaluate the responsible party's methods for making estimates is to test how the responsible party made the estimate. The responsible party may not have made an estimate by applying the criteria to the underlying subject matter, for example, although the responsible party is responsible for information about the sales and collection history of its customers (i.e. the underlying subject matter] the responsible party may not have applied the criteria in U.S. GAAP to establish an estimate of the allowance for uncollectable accounts. In these circumstances, the practitioner could not perform tests of how the responsible party made the estimate. However, before developing the estimate, the practitioner would obtain an understanding of</p> <ul style="list-style-type: none"> <li>• how the information system captures and records data and other information that provides a basis for the estimate (i.e., underlying subject matter)</li> <li>• the relevant controls over that data and other information</li> <li>• the factors both internal and external to the entity that affect the estimate</li> </ul> <p>Obtaining an understanding of these matters assists the practitioner in determining the appropriate method to be used, assessing the</p>



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	<p><del>accuracy and completeness of the data, and considering other relevant information to be used to develop the estimate. The practitioner would exercise the due care, integrity, and objectivity required by the AICPA Code of Professional Conduct in developing the estimate. In a direct examination engagement, the outcome of the measurement or evaluation of the underlying subject matter, is determined by the practitioner, but the underlying subject matter remains the responsibility of the responsible party. The fact that the practitioner does not obtain an assertion in a direct examination engagement does not prevent the practitioner from achieving reasonable assurance in a direct examination engagement.</del></p> <p><u>.A7</u> To provide context for the requirements identified in this section or to present a complete list of requirements for a particular aspect of a direct examination engagement, some paragraphs in this section repeat requirements that are the same as those for an assertion-based examination engagement. (Ref: par. .05b)</p>						
<p><u><i>Requirements In This Section That Differ From and Replace, Or Are in Addition to, Requirements in AT-C Section 205</i></u></p>	<p><u><i>Requirements in this Section That Differ From and Replace, Or Are In Addition to, Requirements In AT-C Section 205 (Ref; par. .06)</i></u></p>						
<p><u>.06</u> When the practitioner performs examination procedures that address the following aspects of a direct examination engagement, the practitioner should apply the requirements in the paragraphs identified in items <i>a–d</i>, which differ from and replace, or are in addition to, the related requirements in AT-C section 205 (Ref: par. .A8)</p> <p><i>a</i> <u>matters relevant to accepting or continuing a direct examination engagement (paragraphs .07—.08 )</u></p>	<p><u>.A8</u> The following table identifies paragraphs in this section that contain requirements that differ from and replace, or are in addition to, the related requirements in AT-C section 205:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>Aspect of a Direct Examination</u></th> <th style="text-align: center;"><u>Paragraphs in AT-C Section 206 That Contain Requirements That</u></th> <th style="text-align: center;"><u>Paragraphs in AT-C Section 205 That Are Replaced by Paragraphs in AT-C</u></th> </tr> </thead> <tbody> <tr> <td style="height: 20px;"></td> <td></td> <td></td> </tr> </tbody> </table>	<u>Aspect of a Direct Examination</u>	<u>Paragraphs in AT-C Section 206 That Contain Requirements That</u>	<u>Paragraphs in AT-C Section 205 That Are Replaced by Paragraphs in AT-C</u>			
<u>Aspect of a Direct Examination</u>	<u>Paragraphs in AT-C Section 206 That Contain Requirements That</u>	<u>Paragraphs in AT-C Section 205 That Are Replaced by Paragraphs in AT-C</u>					

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<p><u>b</u> <u>terms of the engagement (paragraph .09)</u></p> <p><u>c</u> <u>the written representations that a practitioner is required to request of the responsible party and of the engaging party when the engaging party is not the responsible party (paragraphs .10-.11)</u></p> <p><u>d</u> <u>the required minimum elements of the practitioner’s direct examination report. (paragraph .12)</u></p>	<u><a href="#">Differ From and Replace or Are in Addition to Requirements in AT-C Section 205</a></u>	<u><a href="#">Section 206</a></u>	
	<u>Acceptance or Continuance</u>	<u>.07-.08</u>	
	<u>Terms of the Engagement</u>	<u>.09</u>	<u>.8</u>
	<u>Written Representations</u>	<u>.10-.11</u>	<u>.51 and .53</u>
	<u>Elements of the Report</u>	<u>.12</u>	<u>.63</u>
<b>Acceptance and Continuance</b>	<b>Acceptance and Continuance (Ref: <del>par. .9</del>, <u>.07-.08</u>)</b>		
<b><i>Determining Whether to Perform a Direct Examination Engagement</i></b>	<b><i>Determining Whether to Perform a Direct Examination Engagement</i></b>		
<p><u>.07</u> <del>.9</del> Before accepting or continuing a direct examination engagement, the practitioner should obtain an understanding of the following <u>matters</u> through inquiries of the appropriate party: (Ref: par. <del>.A4</del><u>9</u>-.A<u>5</u><u>13</u>)</p> <p><i>a.</i> The intended purpose of the engagement, how the practitioner’s report will be used, and why the engaging party</p>	<p><u>.A9</u> <del>.A4</del> In some cases, the responsible party may be unable to provide a written assertion because the entity does not have the personnel or systems needed to establish a reasonable basis for such an assertion. In other cases, the responsible party may simply wish to engage the practitioner to measure or evaluate the underlying subject matter against <u>the</u> criteria, or an engaging party other than the responsible party may engage the practitioner to do so.</p>		

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<p>wishes to engage the practitioner to perform a direct examination engagement</p> <p>b. If the responsible party has not measured or evaluated the underlying subject matter against the criteria, why the responsible party has not done so</p> <p>c. If the responsible party has measured or evaluated the underlying subject matter against the criteria, why the responsible party has not provided an assertion</p>	<p><u><a href="#">.A10</a></u> <u>In determining whether to accept or continue a direct examination engagement, the practitioner may inquire whether the responsible party is required by law, regulation, or contract to measure or evaluate the underlying subject matter against the criteria or provide a written assertion regarding the outcome of that measurement or evaluation.</u></p> <p><u><a href="#">.A11</a></u> <u>If the responsible party states that it has measured or evaluated the underlying subject matter against the criteria, the practitioner may request the results of that measurement or evaluation.</u></p> <p><u><a href="#">.A12</a></u> <u>The responsible party may not have provided an assertion because, for example, the responsible party performed only a partial measurement or evaluation of the underlying subject matter, but not to an extent that would provide a reasonable basis for an assertion.</u></p> <p><u><a href="#">.A13</a></u> <del><a href="#">.A5</a></del> A practitioner may be requested to change an assertion-based examination engagement<sub>2</sub> in accordance with AT-C section 205<sub>2</sub> to a direct examination engagement. A change from an assertion-based examination <u>engagement</u> to a direct examination <u>engagement</u> would not be considered a change to a lower level of service as described in paragraph .32 of AT-C section 105 because both services entail obtaining reasonable assurance and result in an examination report.</p>
<p><u><a href="#">.08</a></u> <del><a href="#">.10</a></del> Based on the information obtained from</p> <p>a. the inquiries in paragraph <del><a href="#">.907</a></del>,</p> <p>b. previous engagements performed for the engaging party, if any, and</p>	

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<p><i>c.</i> preliminary discussions with the engaging party, including discussion when agreeing upon the terms of the engagement,</p> <p>the practitioner should evaluate whether to perform a direct examination engagement.</p>	
<p><b>Terms of the Engagement</b></p> <p><u>.09</u> <del>.11</del> Paragraph <u>7.07</u> of AT-C section 205 requires the practitioner to agree upon the terms of the engagement with the engaging party in sufficient detail in an engagement letter or other suitable form of written agreement. In a direct examination engagement, the agreed-upon terms of the engagement should include the following: (Ref: par. <del>.A6</del><u>14</u>)</p> <p><i>a.</i> The objective and scope of the engagement</p> <p><i>b.</i> The responsibilities of the practitioner</p> <p><i>c.</i> A statement that the engagement will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants</p>	<p><b>Terms of the Engagement (Ref: par. <del>.H09</del><u>A14</u> <del>.A6</del>)</b></p> <p><u>A14</u> <del>A6</del> A practitioner may further describe the responsibilities of the practitioner by adding the following items to the engagement letter or other suitable form of written agreement:</p> <p><i>a.</i> A statement that an examination is designed to obtain reasonable assurance about whether the subject matter information is free from material misstatement</p> <p><i>b.</i> A statement that the objective of a direct examination is</p> <p style="padding-left: 20px;"><i>i.</i> to measure or evaluate the underlying subject matter against the criteria</p> <p style="padding-left: 20px;"><i>ii.</i> the expression of an opinion in a written practitioner’s report about whether the underlying subject matter is in accordance with (or based on) the criteria, in all material respects, or whether the subject matter information is fairly stated, in all material respects</p>

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<p>d. The responsibilities of the responsible party and the responsibilities of the engaging party, if different including the following: (Ref: par. <a href="#">.A715</a>)</p> <p>i. The responsible party is responsible for the underlying subject matter</p> <p>ii. The responsible party or engaging party, as applicable, is responsible for the following:</p> <ol style="list-style-type: none"> <li>(1) identifying the criteria for the measurement, evaluation, or disclosure of the underlying subject matter (Ref: par. <a href="#">.A816</a>)</li> <li>(2) determining that such criteria are suitable and will be available to the intended users</li> </ol> <p>e. A statement about the inherent limitations of a direct examination engagement (Ref: par. <a href="#">.A917</a>)</p>	<p><a href="#">.A15</a> <del>.A7</del>—Situations may exist in which the responsible party is not the engaging party and as such the responsibilities of each party may differ. For example, when the responsible party is not the engaging party, the engaging party rather than the responsible party, may be responsible for identifying the criteria.</p> <p><a href="#">.A16</a> <del>.A8</del>—The engaging party may request that the practitioner recommend, develop, or assist in developing the criteria for the engagement. <del>The engaging party is deemed to have identified the criteria if the engaging party agrees to the criteria tha</del> <u>Regardless of whether the practitioner recommendeds, develops, or assisteds in developing the criteria for the engagement, the engaging party is required to determine that the criteria are suitable.</u></p> <p><a href="#">.A17</a> <del>.A9</del>—If relevant, a statement about the inherent limitations of an examination engagement may indicate that “because of the inherent limitations of a direct examination engagement, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the examination is properly planned and performed in accordance with the attestation standards.”</p>

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<p>f. Identification of the criteria for the measurement, evaluation, or disclosure of the subject matter</p> <p>g. An acknowledgement that the engaging party agrees to provide the practitioner with a representation letter at the conclusion of the engagement</p>	
Written Representations	Written Representations (Ref: par. <del>.12</del> 10)
<p><del>.10</del> <del>.12</del> The practitioner should request from the responsible party written representations in the form of a letter addressed to the practitioner. The representations should (Ref: par. <del>.A10</del>18–<del>A11</del>19)</p> <p>a. state that all known matters contradicting the <u>underlying</u> subject matter and any communication from regulatory agencies or others affecting the <u>underlying</u> subject matter have been disclosed to the practitioner, including communications received between the end of the period addressed by the practitioner’s report and the date of the practitioner’s report.</p> <p>b. acknowledge responsibility for</p> <ol style="list-style-type: none"> <li>i. the underlying subject matter;</li> <li>ii. selecting the criteria, when applicable; (Ref: par. <del>.A8</del>16) and</li> <li>iii. determining that such criteria are appropriate for the intended purpose of the engagement.</li> </ol> <p>c. state that any known events occurring subsequent to the</p>	<p><del>.A18</del> <del>.A10</del> Written confirmation of oral representations reduces the possibility of misunderstandings between the practitioner and the responsible party. The person(s) from whom the practitioner requests written representations is ordinarily a member of senior management or those charged with governance depending on, for example, the management and governance structure of the responsible party, which may vary by entity, reflecting influences such as size and ownership characteristics.</p> <p><del>.A19</del> <del>.A11</del> Representations by the responsible party cannot replace other evidence the practitioner could reasonably expect to be available. Although written representations provide evidence, they do not provide sufficient appropriate evidence on their own about any of the matters with which they deal. Furthermore, the fact that the practitioner has received reliable written representations does not affect the nature or extent of other evidence that the practitioner obtains.</p> <p><del>.A20</del> <del>.A12</del> A discussion of what is considered a material effect on the underlying subject matter or subject matter information may be</p>

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<p>period (or point in time) of the measurement or evaluation of the underlying subject matter against the criteria being reported on that would have a material effect on the underlying subject matter or subject matter information have been disclosed to the practitioner. (Ref: par. <del>.A12</del><u>20</u>)</p> <p><i>d.</i> state that it has provided the practitioner with all relevant information and access.</p> <p><i>fe.</i> state that the responsible party has disclosed to the practitioner</p> <ol style="list-style-type: none"> <li><i>i.</i> all deficiencies in internal control relevant to the underlying subject matter of which the responsible party is aware;</li> <li><i>ii.</i> its knowledge of any actual, suspected, or alleged fraud or noncompliance with laws or regulations affecting the underlying subject matter or subject matter information; and</li> <li><i>iii.</i> other matters as the practitioner deems appropriate.</li> </ol>	<p>included explicitly in the representation letter in qualitative or quantitative terms.</p>
<p><del>.11 .13</del> When the engaging party is not the responsible party, the practitioner should request written representations from the engaging party in addition to those requested from the responsible party, in the form of a letter addressed to the practitioner. The representations should</p> <p><i>a.</i> acknowledge that the responsible party is responsible for the underlying subject matter.</p>	

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<p><i>b.</i> acknowledge the engaging party’s responsibility for selecting the criteria, when applicable.</p> <p><i>c.</i> acknowledge the engaging party’s responsibility for determining that such criteria are appropriate for its purposes.</p> <p><i>d.</i> state that the engaging party is not aware of any material misstatements in the underlying subject matter.</p> <p><i>e.</i> state that the engaging party has disclosed to the practitioner all known events subsequent to the period (or point in time) of the subject matter information being reported on that would have a material effect on the subject matter information.</p> <p><i>f.</i> address other matters as the practitioner deems appropriate.</p>	
<b>Content of the Practitioner’s Report</b>	<b>Content of the Practitioner’s Report</b>
<p><del>.12</del> <del>.14</del> The practitioner’s report should include the following, unless the practitioner is disclaiming an opinion, in which case, items <del>.14f</del> <del>12g</del>, and <del>.14g</del><del>12h</del> should be omitted:</p> <p><i>a.</i> A title that includes the word independent. (Ref: par. <del>.A13</del><del>21</del>)</p>	<p><b>Title (Ref: par. <del>.14</del><del>12a</del>)</b>  <del>.A21</del> <del>.A13</del> A title indicating that the practitioner’s report is the report of an independent practitioner (for example, “Independent Practitioner’s Report,” “Report of Independent Certified Public Accountant,” or “Independent Accountant’s Report”) affirms that the practitioner has met all the relevant ethical requirements regarding independence and, therefore, distinguishes the independent practitioner’s report from reports issued by others.</p>



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b. An appropriate addressee as required by the circumstances of the engagement.	
c. An identification or description of the subject matter information being reported on, including the point in time or period of time to which the measurement or evaluation of the underlying subject matter against the criteria relates.	
d. An identification of the criteria against which the underlying subject matter was measured or evaluated. (Ref: par. <del>.A14</del> <u>22</u> )	<b>Criteria (Ref: par. <del>.14</del><u>12d</u>)</b> <u>.A22</u> <del>.A14</del> The practitioner’s report may include the criteria or refer to them if they are included in the subject matter presentation or are otherwise readily available. It may be relevant in the circumstances to disclose the source of the criteria or the relevant matters discussed in paragraph .A73 of AT-C section 205.
e. <del>A statement that identifies</del> <u>An identification of</u> i. the responsible party and its responsibility for (1) the underlying subject matter, and <del>for</del> (2) selecting the criteria, if applicable (Ref: par. <del>.A15</del> <u>23</u> .) ii. the practitioner’s responsibility <del>to measure or evaluate for</del> (1) <u>measuring (or evaluating)</u> the underlying subject matter <del>in accordance with (or based on)</del> <u>against</u> the criteria, <del>and to express</del> (3) <u>expressing</u> an opinion on the subject matter information, based on the practitioner’s examination (Ref: par. <u>.A24</u> )	<b>Relevant Responsibilities (Ref: par. <del>.14</del><u>12e</u>)</b> <u>.A23</u> <del>.A15</del> Identifying relative responsibilities informs the intended users that the responsible party is responsible for the underlying subject matter, and the practitioner’s role is to <del>independently measure or evaluate the underlying subject matter against the criteria and</del> express an opinion <del>about its measurement or evaluation against on whether the underlying subject matter is in accordance with (or based on) the criteria-</del> , <u>in all material respects, or whether the subject matter information is fairly presented, in all material respects</u>  <u>.A24</u> <u>In circumstances in which the practitioner prepares a presentation, the practitioner may include that information in the practitioner’s report.</u>
f. A statement that	

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<p>i. the practitioner’s examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.</p> <p>ii. those standards require that the practitioner plan and perform the examination to obtain reasonable assurance about whether</p> <p style="padding-left: 20px;">(1) the underlying subject matter is in accordance with (or based on) the criteria, in all material respects (or equivalent language regarding the underlying subject matter and criteria, such as the language used in the examples in paragraph .A1625) or</p> <p style="padding-left: 20px;">(2) the subject matter information is fairly stated, in all material respects</p> <p>iii. the practitioner believes the evidence the practitioner obtained is sufficient and appropriate to provide a reasonable basis for the practitioner’s opinion.</p>	<p><b><i>Statement About the Underlying Subject Matter and the Criteria</i></b>  <b><i>(Ref: par. .1412f(ii)1)</i></b></p> <p><b><i>.A25</i></b> <del><b><i>.A16</i></b></del> The language in paragraph <b><i>.1412f(ii)(1)</i></b> may need to be tailored to reflect the nature of the underlying subject matter and criteria for the engagement. Examples of language that meet the requirements in paragraph <b><i>.1412f(ii)(1)</i></b> include, “to obtain reasonable assurance about whether</p> <ul style="list-style-type: none"> <li>• the entity maintained effective internal control over the underlying subject matter, based on the criteria, in all material respects.”</li> <li>• the underlying subject matter is presented in accordance with (or based on) the criteria, in all material respects.”</li> <li>• the subject matter information is presented fairly, in all material respects, based on the criteria.”</li> </ul>
<p>g. A description of the nature of a direct examination engagement. (Ref: par. .A1726–.A1827)</p>	<p><b><i>Description of the Nature of a Direct Examination Engagement</i></b>  <b><i>(Ref: par. .1412g)</i></b></p> <p><b><i>.A26</i></b> <del><b><i>.A17</i></b></del> A description of the nature of a direct examination engagement may state, for example, that</p> <ul style="list-style-type: none"> <li>• a direct examination involves measuring or evaluating the</li> </ul>

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	<p>underlying subject matter against the criteria and performing other procedures to obtain sufficient appropriate evidence</p> <ul style="list-style-type: none"> <li>• <input type="checkbox"/> in making an assessment of the risks of material misstatement, the practitioner considered and obtained an understanding of internal control relevant to the underlying subject matter in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, no such opinion is expressed.</li> <li>• the nature, timing, and extent of the procedures selected depend on the practitioner’s judgment, including an assessment of the risks of material misstatement of the subject matter information, whether due to fraud or error.</li> </ul> <p><u>.A27</u> <del>.A18</del> A practitioner may be requested to provide in a separate section of the practitioner’s report a description of the procedures performed and the results thereof in support of the practitioner’s opinion. The following factors are relevant when determining whether to include such a description in the report:</p> <ul style="list-style-type: none"> <li>• Whether such a description is likely to overshadow the practitioner’s overall opinion or cause report users to misunderstand the opinion</li> <li>• Whether the parties making the request have an appropriate business need or reasonable basis for requesting the information (for example, the specified parties are required to maintain and monitor controls that either encompass or are dependent on controls that are the subject of a direct</li> </ul>

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	<p>examination and, therefore, need information about the tests of controls to enable them to have a basis for concluding that they have met the requirements applicable to them)</p> <ul style="list-style-type: none"> <li>• Whether the parties have an understanding of the nature and underlying subject matter of the engagement and experience in using the information in such reports</li> </ul>
<p><i>h.</i> A statement that the practitioner is <u>required to be</u> independent and <del>has fulfilled to meet</del> the practitioner’s other ethical responsibilities in accordance with relevant ethical requirements related to the examination engagement (Ref: par. <del>.A19</del><u>.A28</u>–<del>A20</del><u>A29</u>)</p>	<p><b><i>Relevant Ethical Requirements (Ref: par. <del>.14</del><u>12h</u>)</i></b>  <del>.A19</del> <u>.A28</u> Relevant ethical requirements consist of the AICPA Code of Professional Conduct together with rules of state boards of accountancy and applicable regulatory agencies that are more restrictive. When the AICPA Code of Professional Conduct applies, the practitioner’s other ethical responsibilities relate to the “Principles of Professional Conduct” (ET sec. 0.300).<sup>23</sup></p> <p><del>.A20</del> <u>.A29</u> Relevant ethical requirements may exist in several different sources, such as ethical codes and additional rules and requirements within law and regulation. When independence and other relevant ethical requirements are contained in a limited number of sources, the practitioner may choose to name the relevant sources (for example, the name of the code, rule, or applicable regulation, or <i>Government Auditing Standards</i> promulgated by the Comptroller General of the United States) or may refer to a term that appropriately describes those sources.</p>
<p><i>i.</i> A statement that describes significant inherent limitations, if</p>	<p><b><i>Inherent Limitations (Ref: par. <del>.14</del><u>12i</u>)</i></b></p>

<sup>23</sup> All ET sections can be found in AICPA *Professional Standards*.

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<p>any, associated with the measurement or evaluation of the underlying subject matter against the criteria. (Ref: par. <del>.A21</del><u>.30</u>)</p>	<p><del>.A30</del> <del>.A21</del> When not explicitly required by an AT-C section, identification in the report of inherent limitations is based on the practitioner’s judgment.</p>
<p><i>j.</i> The practitioner’s opinion about whether the underlying subject matter is in accordance with (or based on) the criteria, in all material respects, or the subject matter information is fairly stated, in all material respects (Ref: par. <del>.A22</del><u>.31</u>–<del>.A24</del><u>.33</u>)</p>	<p><b><i>Opinion (Ref: par. <del>.14</del><u>12j</u>)</i></b></p> <p><del>.A31</del> <del>.A22</del> The language of the practitioner’s opinion in paragraph <del>.14</del><u>12j</u> may need to be tailored to reflect the nature of the underlying subject matter and criteria for the engagement. Examples of language that meet the requirements in paragraph <del>.14</del><u>12j</u> include the following:</p> <ul style="list-style-type: none"> <li>• The entity maintained effective internal control over the underlying subject matter, in all material respects, based on the criteria.</li> <li>• The underlying subject matter is presented in accordance with (or based on) the criteria, in all material respects.</li> <li>• The subject matter information is free from material misstatement based on the criteria.</li> <li>• The subject matter information is presented fairly, in all material respects, based on the criteria. (The practitioner’s professional judgment concerning the fairness of the presentation of the subject matter information relates to whether the measurement, recognition, presentation, and disclosure of all material items in the presentation of the subject matter achieve fair presentation.)</li> </ul> <p><del>.A32</del> <del>.A23</del> A single practitioner’s report may cover more than one</p>

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	<p>aspect of subject matter information. When that is the case, the report may contain separate opinions or conclusions on each aspect of the subject matter information.</p> <p><del>.A33</del> <del>.A24</del> A practitioner may report on subject matter information at multiple dates or covering multiple periods during which criteria have changed (for example, a practitioner’s report on comparative information). Criteria are clearly described when they identify the criteria for each period and how the criteria have changed from one period to the next. If the criteria for the current date or period have changed from the criteria for a preceding date or period, changes in the criteria may be significant to users of the report. If so, the criteria and the fact that they have changed may be disclosed in the presentation of the subject matter information, or in the report, even if the subject matter for the preceding date or period is not presented.</p>
<p><i>k</i> The manual or printed signature of the practitioner’s firm.</p>	
<p><i>l.</i> The city and state where the practitioner practices. (Ref: par. <del>.A25</del><del>34</del>)</p>	<p><b>Location (Ref: par. <del>.14</del><del>12</del>1)</b>  <del>.A34</del> <del>.A25</del> In the United States, the location of the issuing office is the city and state. In another country, it may be the city and country.</p>
<p><i>m.</i> The date of the report. (The report should be dated no earlier than the date on which the practitioner has obtained sufficient appropriate evidence on which to base the practitioner’s opinion, including evidence that</p> <ul style="list-style-type: none"> <li>i the attestation documentation has been reviewed, and</li> <li>ii. if applicable, the written presentation of the subject matter information has been prepared (Ref par. <del>.A26</del><del>35</del>–<del>.A27</del><del>36</del>)</li> </ul>	<p><b>Date (Ref: par. <del>.14</del><del>12</del>m)</b>  <del>.A35</del> <del>.A26</del> Including the date of the practitioner’s report informs the intended users that the practitioner has considered the effect of the events that occurred up to that date on the subject matter information and the report.</p> <p><del>.A36</del> <del>.A27</del> Because the practitioner both prepares and expresses an</p>

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	opinion on the subject matter information, and the underlying subject matter is the responsibility of the responsible party, the practitioner is not in a position to conclude that sufficient appropriate evidence has been obtained until evidence is obtained that all the elements that the subject matter information comprises, including any related notes, when applicable, have been prepared.

## Illustrative Direct Examination Reports

### Example 1

[Appropriate Addressee]

We have examined [identify the subject matter information, for example, the accompanying schedule of investment returns of XYZ Company for the year ended December 31, 20XX]. XYZ Company's management is responsible for [identify the underlying subject matter, for example, its investment transactions and maintaining a record of those transactions]. ~~If the responsible party has selected the criteria add~~ "and for selecting (identify the criteria identified, for example, the ABC criteria set forth in Note 1" ~~if applicable~~)] as the criteria." ~~If management has not selected the criteria, "Management has agreed to the criteria identified in Note 1 to measure (or evaluate) the underlying subject matter."~~ Our responsibility is to

- measure (or evaluate) [identify the underlying subject matter, for example, the investment returns of XYZ Company for the year ended December 31, 20XX, based on [identify the criteria, for example, the ABC criteria set forth in Note 1];
- [~~identify any~~ a practitioner may add, but is not required to add, other responsibilities of the practitioner, for example, ~~to~~ prepare the schedule of investment returns of XYZ Company for the year ended December 31, 20XX]; and
- express an opinion on [identify the subject matter information, for example, the schedule of investment returns of XYZ Company for the year ended December 31, 20XX] based on our examination.

Our direct examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether [identify the subject matter information, for example, the schedule of investment returns] is in accordance with (or based on) [identify the criteria, for example, the ABC criteria set forth in Note 1], in all material respects. A direct examination involves measuring or evaluating [identify the underlying subject matter, for example, the investment returns of XYZ Company for the year ended December 31, 20XX] against [identify the criteria, for example, the ABC criteria set forth in Note 1] and performing other procedures to obtain evidence about [identify the subject matter information, for example, the schedule of investment returns]. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of [identify the ~~underlying~~ subject matter information,



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for example, the schedule of investment ~~transactions and record of those transactions~~ returns], whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

*[Include a description of significant inherent limitations, if any, associated with the measurement or evaluation of the underlying subject matter against the criteria.]*

We are required to be independent of [identify the responsible party, for example, XYZ Company,] and ~~have fulfilled to meet~~ our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our examination.

*[Additional paragraph(s) may be added to emphasize certain matters relating to the attestation engagement or the subject matter information.]*

In our opinion, *[identify the subject matter information, for example, the schedule of investment returns of XYZ Company for the year ended December 31, 20XX, or the schedule of investment returns referred to above]*, is fairly presented in accordance with (or based on) *[identify the criteria, for example, the ABC criteria set forth in Note I]*, in all material respects.

*[Signature of the practitioner's firm]*

*[City and state where the practitioner's report is issued]*

*[Date of the practitioner's report]*

## Example 2

[Appropriate Addressee]

We have examined [identify the underlying subject matter, for example, *Indulgent Daycare Center’s safety practices and its implementation of those practices during the year ended December 31, 20XX*]. Indulgent Daycare Center’s management is responsible for [identify the underlying subject matter, for example, *its safety practices and its implementation of those practices*] [*If the responsible party has selected the criteria add “and for selecting [identify the criteria, for example, XYZ City’s Safety Regulations identified in Note 1]” as the criteria*] *if applicable*. [~~*If management has not selected the criteria, “Management has agreed to the criteria identified in Note 1 to measure (or evaluate) the underlying subject matter.”*~~]. Our responsibility is to measure (or evaluate) ~~the~~ [identify the underlying subject matter, for example, *Indulgent Daycare Center’s safety practices and its implementation of those practices during the year ended December 31, 20XX*] based on [identify the criteria, for example, *XYZ City’s Safety Regulations identified in Note 1*] and to express an opinion on [identify the underlying subject matter, for example, *Indulgent Daycare Center’s safety practices and its implementation of those practices*] based on our examination.

Our direct examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the direct examination to obtain reasonable assurance about whether [identify the underlying subject matter, for example, *Indulgent Daycare Center’s safety practices and its implementation of those practices*] were in accordance with (or based on) [identify the criteria, for example, *XYZ City’s Safety Regulations identified in Note 1*], in all material respects. A direct examination involves measuring or evaluating [identify the underlying subject matter, for example, *Indulgent Daycare Center’s safety practices and its implementation of those practices*] and performing other procedures to obtain evidence about [identify the underlying subject matter, for example, *Indulgent Daycare Center’s safety practices and its implementation of those practices*]. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks that [identify the underlying subject matter, for example, *Indulgent Daycare Center’s safety practices and its implementation of those practices*] were not in accordance with [identify the criteria, for example, *XYZ City’s Safety Regulations identified in Note 1*] in all material respects], whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

[Include a description of significant inherent limitations, if any, associated with the measurement or evaluation of the underlying subject matter against the criteria.]

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We are required to be independent of ~~XYZ Company~~[identify the responsible party, for example, Indulgent Daycare Center], and ~~have fulfilled to meet~~ our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our examination.

*[Additional paragraph(s) may be added to emphasize certain matters relating to the attestation engagement or the subject matter.]*

In our opinion, *[identify the underlying subject matter, for example, Indulgent Daycare Center's safety practices and its implementation of those practices during the year ended December 31, 20XX]*, were in accordance with (or based on) *[identify the criteria, for example, XYZ City's Safety Regulations ~~as set forth~~ identified in Note 1]*, in all material respects.

*[Signature of the practitioner's firm]*

*[City and state where the practitioner's report is issued]*

*[Date of the practitioner's report]*